ASSESSMENT OF FOREIGN DIRECT INVESTMENT ON THE ECONOMIC GROWTH OF NIGERIA

BY

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DECLARATION

I hereby declared that this project titled "*An Assessment of Foreign Direct Investment (FDI) on the Economic Growth of Nigeria"* had been written by me, in the Department of Business Administration, under the supervision of Dr. M. Y Abubakar.

The information derived from the literature has been duly acknowledged in the text and a list of references provided. No part of this research study has been presented for another degree or diploma at any institution.

YAHAYA, MUHAMMAD SANI	SIGN	DATE

CERTIFICATION

This is to certify that this project titled "*Assessment of Foreign Direct Investment (FDI) on the Economic Growth of Nigeria"* meets the regulations governing the award of the Masters degree of Business Administration (MBA) Ahmadu Bello University, and is approved for its contribution to knowledge and literary presentation.

Dr. M. Y Abubakar (Chairman, Supervisory Committee)	Sign	Date
Dr SABO BELLO (Head of department)	Sign	Date
External Examiner	Sign	Date
Prof. Adebayo A. Joshua (Dean of postgraduate school)	Sign	Date

DEDICATION

I dedicated this project to my beloved parents, Alh. Yahaya Abdu ibn Ibrahim and Malama Fureratu Abdullahi whom I received my inspiration right from day one, my grand mummy late Zainab Usman Likoro may her soul rest in peace amin,my humble brothers Abubakay and Umar Farouk Yahaya and my dream wife insha Allah Ruqayya Muhammad Sani.

I therefore pray…….. “O our lord forgive me, my parents and all the believers on the day when the reckoning will be established” Quran 14:41, amin.

ACKNOWLEDGMENT

Oh Allah I thank you for mercies showered on me and sparing my life to this time as a Muslim. How enough can I thank you? “ALHAMDULILLAH”.

May the peace and blessing of Allah continue to be upon the “Best” man ever exacted and seal of prophets, our noble prophet Muhammad (SAW) his household, companions and those that follow his way till the Day of Judgment.

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I must put in record my gratitude to my parents Alh. Yahaya Abdu and Malama Fureratu Abdullahi and my entire relatives for imbibing the passion for excellence in me right from day one. May Allah continue to be your guide amin.

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“O Allah, you are my Lord, none has the right to be worship except you, you created me and am your servant. I abide to your covenant and promise as best as can, I take refuge in you from the evil of which I have committed. I acknowledge my sin, forgive me Yaa Allah, for verily none can forgive except you and bless this Masters Degree I obtained, amin.

ABSTRACT

This study assesses of Foreign Direct Investment on Economic Growth of Nigeria. Data used for this study were sourced from annual accounts and statistical bulletin of the Central Bank of Nigeria (CBN), National Bureau of Statistics (NBS), International Research Journal for finance and Economics (2011), International Monetary Fund, and international financial statistics and balance of payments data bases. The scope covers a period of 11 years (2000 – 2010) both years inclusive. The study found that there is a strong positive relationship between foreign direct investment and gross domestic product (GDP). It is therefore; recommended that For FDI to be beneficial for the economy the perquisites are to insure the availability of the adequate local market for production, better human resource. Government should provide sound business and peaceful environment and opportunities to strengthen foreign investors, generate bilateral relations with the potential foreign investors to attract them into the country. A related issue on the business environment is the importance of consciously curbing corruption. Agencies established to fight corruption such as the Economic and Financial Crimes Commission (EFCC) and Independent Corrupt Practices Commission (ICPC) should be seen to do their job to convince both foreigners and indigenes that Nigeria is a safe place to invest in.

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CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND OF THE STUDY

Foreign Direct Investment (FDI) has emerged as the most important source of external resource flows to developing countries over the 1990s and has become a significant part of capital formation in the developing countries despite their share in global distribution of FDI continuing to remain small or even declining. The role of the foreign direct investment (FDI) has been widely recognized as a growth-enhancing factor in the developing countries). The effects of FDI in the host economy are normally believed to be in the employment, increase in productivity, increase in exports and, of course, increased pace of transfer of technology.

FDI is an investment in a foreign country where the investing party or corporation retains a control over the investment (Themeje and Igbokwe, 2010). Also, FDI occurs when a firm invests directly in facilities to produce and/or market a produce in a foreign country (Manoj 2010). According to World Bank (1996), FDI is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor. Such investments may take the form of either "green field" investment or merger and acquisition (M&A), which entails the acquisition of existing interest rather than new investment.

However, FDI serves as a source of capital inflow and transfer of technology and the effort by several African countries to improve their business climate stems from the desire to attract FDI. In fact, one of the pillars on which the New Partnership for Africa's Development (NEPAS) was launched to increase available capital to US$64 billion through a combination of reforms, resource mobilization and a conducive environment for FDI (Funke and Nsouli, 2003).

Unfortunately, the efforts of most counties in Africa to attract FDI have been futile in spite of the perceived and obvious need for FDI in the continent. The development is disturbing, sending very little hope economic development and growth for these countries. Furthermore, the pattern of the FDI that does exist is often skewed towards extractive industries, meaning that the differential rate of FDI inflow into Sub-Sahara African (SSA) countries has been adduced to be due to natural resources although the size of the local market may also be a consideration (Asiedu 2001, Morriset 2000).

The empirical linkage between FDI and economic growth in Nigeria is yet unclear, despite numerous studies that have examined the influence of FDI on Nigeria's economic growth with varying outcomes (Oseghale and Amonkhienan, 1987). Nigeria as a country, given her natural resource base and large market size, qualifies to be a major recipient of FDI in Africa and indeed is one of the top three leading African countries that consistently received FDI in the past decade. As at 2009, Nigeria had a total of N2.98 billion as FDI inflow. However, the level of FDI attracted by Nigeria is mediocre (Asiedu, 2003) compared with the resource base and potential need. Therefore, recent evidence affirms that the relationship between FDI and growth may be country and period specific.

The study made conscious effort to address the endogeneity issue, and provide justification for the unrelenting efforts of the government to attract FDI, which are being misunderstood and resisted by the Nigerian populace.

1.2 STATEMENT OF THE PROBLEM

Nigeria is the third largest recipient of Foreign Direct Investment (FDI) in Africa after Angola and Egypt. New FDI in Nigeria was estimated at $6.8 billion in 2011, up from $6.1 billion in 2010, down 21% from $8.65 in 2009. The decline in FDI in 2010 was due to ongoing uncertainty

related to the proposed Petroleum Industry Bill (PIB) as well as unrest in the Niger Delta, political and religious crises in northern Nigeria which discourages foreign investors in some sector of the economy like manufacturing. Nigeria suffers from high unemployment and one of the world's most unequal income distributions. Nigeria's unemployment rate is above the sub-region's average and is projected to hit 25% in 2012. Nigeria has a misery index of 35.9%. The misery index is the combination of inflation (12.0%) and unemployment (23.9%) in 2012. prospects for FDI appear to have brightened as investors return to sub-Saharan Africa especially Nigeria. Therefore, if the economy, stakeholders and the investors are not satisfied with the existing FDI activities in Nigeria, they would be unwilling to invest in the economy, which in turn would lead to underdevelopment and low growth rate of the economy.

1.3 OBJECTIVES OF THE STUDY

The main objectives of the study therefore are:

a. To explore the relationship between FDI and GDP growth in Nigeria;

b. To examine the effects of FDI on economic growth in Nigeria; and

c. To ascertain the long-run sustainability of the FDI-induced growth process.

1.4 RESEARCH QUESTIONS

In line with the above research objectives, the following research questions are formulated, thus:

a. What are the effects of FDI on economic growth in Nigeria?

b. To what extend has sustainability of FDI-induced growth process?

c. What are the contributory factors to FDI?s

1.5 RESEARCH HYPOTHESIS

Research objectives one is used to formulate the research hypotheses that will guide this study. The hypothesis is formulated as follows:

H_0: There is no significant relationship between FDI and GDP growth in Nigeria.

H_i: There is a significant relationship between FDI and GDP growth in Nigeria.

1.6 SIGNIFICANCE OF THE STUDY

This research study will be of immense significance to the researcher, policy maker, economic analyst and the students of related field of study that are interested in the viability and sustainability of Nigerian economy, there by serving as reference material. This study provides new empirical research on the activities/trend of FDI in Nigeria.

1.7 SCOPE AND LIMITATION OF THE STUDY

To achieve stated objectives of the study, pearson's product movement correlation coefficient and student T-test were used. The data were sourced from the Central Bank of Nigeria's (CBN) Statistical Bulletin, the International Monetary Fund's International Financial Statistics and the World Bank's World Development Indicators. The period covered by the study is 2000-2010. The choice of the period is informed by the developments in the Nigerian economy.

The study is limited by some problems which were encountered during the process of putting the research work together. Among the constraint is inadequate access to data from the Central Bank of Nigeria (CBN), for this research study. Some information's are left secret to the organization. Nevertheless, I was still disclosed by some information that aided me in the completion of the research work.

Financial constraint, it was quite a great concern to raise funds to cope with taping and binding this research study. Internet, which could have served as a perfect substitute but took a lot of time in sorting out relevant materials.

1.8 DEFINITION OF TERMS

Growth: refers to an increase in some quantity over time. The quantity can be: physical (e.g., growth in height, growth in an amount of money or abstract e.g., a system becoming more complex, an organism becoming more mature).

Economic growth: is the increase of per capita Gross Domestic Product or other measure of aggregate income. Economic growth refers only to the quantity of goods and services produced.

Development: a concept that includes consideration of community-wide or regional environmental implications.

Economic development: is the increase in the standard of living in a nation's population with sustained growth from a simple, low-income economy to a modern, high-income economy.

Foreign Direct Investment (FDI): is an investment in a foreign country where the investing party or corporation retains a control over the investment. FDI occurs when a firm invests directly in facilities to produce and/or market a produce in a foreign country.

Gross Domestic Product (GDP): the total value of goods and services produced in a country over a period of time. GDP measures a country's economic activity regardless of who owns the productive assets in that country. Many economists use the GDP to measure the standard of living in a country.

Investment: is the commitment of money or capital to the purchase of financial instruments or other assets so as to gain profitable returns in the form of interest, income {dividend}, or appreciation of the value of the instrument.

Merger and Acquisition (M & A): In business, a merger is achieved when a company purchases the property of other firms, thus absorbing them into one corporate structure that retains its original identity. Acquisition is the attempt of one firm to acquire ownership or control over another firm against the wishes of the letter's management.

OECD: Organization for economic Cooperation and Development:

Research and Development (R & D): is the process undertaken by a business organization before the launch of a product. Research is usually scientific research into materials and production processes.

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter reviews literature relevant to the research objectives. It builds a theoretical foundation upon which the research is based. It commences with an examination of what FDI is, and why is necessary for the economic growth and development of a nation. The chapter will further consider how FDI has impacted on the Nation's economy. A review of literatures covering FDI and their application follows. The chapter also considers the theory upon which the research will be based.

2.2 THE CONCEPT OF FOREIGN DIRECT INVESTMENT (FDI)

Renewed research interest in FDI stems from the change of perspectives among policy makers from "hostility" to "conscious encouragement", especially among developing countries. FDI had been seen as "parasitic" and retarding the development of domestic industries for export promotion until recently. However, Bende Nabende and Ford (1998) submit that the wide externalities in respect of technology transfer, the development of human capital and the opening up of the economy to international forces, among other factors, have served to change the former image.

Caves (1996) observe that the rationale for increased efforts to attract more FDI stems from the belief that FDI has several positive effects. Among these are productivity gains, technology transfers, and the introduction of new processes, managerial skills and know-how in the domestic market, employee training, international production networks, and access to markets. Borensztein et al. (1995) see FDI as an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment. Findlay (1978) postulates

that FDI increases the rate of technical progress in the host country through a "contagion" effect from the more advanced technology, management practices, etc used by foreign firms. On the basis of these assertions governments have often provided special incentives to foreign firms to set up companies in their countries.

FDI is an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor defined according to residency (World Bank, 1996). Such investments may take the form of either "Greenfield" investment (also called "mortar and brick" investment) or merger and acquisition (M&A), which entails the acquisition of existing interest rather than new investment.

In corporate governance, ownership of at least 10% of the ordinary shares or voting stock is the criterion for the existence of a direct investment relationship. Ownership of less than 10% is recorded as portfolio investment. FDI comprises not only merger and acquisition and new investment, but also reinvested earnings and loans and similar capital transfer between earnings and loans and similar capital transfer between parent companies and their affiliates. Countries could be both host to FDI projects in their own country and a participant in investment projects in other counties. A country's inward FDI position is made up of the hosted FDI projects, while outward FDI comprises those investment projects owned abroad. One of the most salient features of today's globalization drive is conscious encouragement of cross-border investments, especially by transnational corporations and firms (TNCs). Many countries and continents (especially developing) now see attracting FDI as an important element in their strategy for economic development.

Policy makers believe that foreign direct investment (FDI) produces positive effects on host economies. Some of these benefits are in the form of externalities and the adoption of foreign

technology. Externalities here can be in the form of licensing agreements, imitation, employee training and the introduction of new processes by the foreign firms (Alfaro, 2006). According to Tang, Selvanathan and Selvanathan (2008), multinational enterprises (MNEs) diffuse technology and management know-how to domestic firms. When FDI is undertaken in high risk areas or new industries, economic rents are created accruing to old technologies and traditional management styles which are highly beneficial to the recipient economy. In addition, FDI helps in bridging the capital shortage gap and complement domestic investment especially when it flows to a high risk areas of new firms where domestic resource is limited (Noorzoy, 1979). Nigeria is one of the economies with great demand for goods and services and has attracted some FDI over the years. The amount of FDI inflow into Nigeria has reached US$2.23 billion in 2003 and it rose to US$5.31 billion in 2004 (a 138 % increase) this figure rose again to US$9.92 billion (an 87% increase) in 2005. The figure however declined slightly to US$9.44 billion in 2006 (LOCOmonitor.com). The question that comes to mind is did FDI actually contribute to economic growth in Nigeria? If FDI actually contributes to growth, then the sustainability of FDI is a worthwhile activity and a way of achieving its sustainability is by identifying the factors contributing to its growth with a view to ensuring its enhancement. Again, most studies on FDI and growth are cross-country studies. However, FDI and growth debates are country specific. Earlier studies (for instance, Otepola, 2002; Oyejide, 2005; Akinlo; 2004) examines only the importance of FDI on growth and the channels through which it may be benefiting the economy. This study however examines the contributions of FDI to growth. In addition, analyze the endogeneity case using pearson's product movement correlation coefficient, student T-test, and regression analysis. It also empirically investigates the determinants of FDI flow in Nigeria.

Romer (1993) argues that idea gaps exist between the rich and poor countries and foreign investment can ease the transfer of technology and business understanding of the poorer countries. Based on this view, FDI can have a spillover on all firms thereby boost the productivity of the entire economy. Boyd and Smith (1992) however argued to the contrary. According to them, FDI can affect resource allocation and growth negatively where there is price distortion, financial, trade and other forms of distortions existing prior to FDI injections. Wheeler and Mody (1992) also supports the view of Boyd and Smith (1992). According to Wheeler and Mody (1992), infrastructure enhances FDI's contributions by reducing their operating costs and increasing the productivity of investments. In other words, the growth impact of FDI is not automatic but tied to certain levels of infrastructure and economic performance. Empirical contributors to FDI debate include Borensztein, De Gregorio and Lee (1998). They examined the effect of FDI on economic growth using data on FDI flows from industrial countries to 69 developing countries over the last two decades. Their regression results suggest that FDI is an important tool for technology transfer and it has contributed to growth more than domestic investment. However, the higher productivity of FDI can be realized more when the host country has a minimum threshold stock of human capital. In addition, FDI has the potentials of increasing total investment more than one for one. Alfaro *et. al.* (2006) analyzed the role of local financial markets in enabling FDI to promote growth through backward linkages. They asserted that to operate intermediate firms in the goods sector, the entrepreneurs require upfront capital investments. The more developed the local financial markets is, the easier it is for credit constrained firms to operate. The increase in the varieties and quantities of intermediate goods, leads to positive spillovers to the final goods sector. Due to this, the financial markets ensure the backward linkages between foreign and domestic firms to turn into FDI spillovers. Their

calibration results indicate that holding foreign presence constant, financially well developed economies perform almost as twice as economies with poor financial markets in term of growth. FDI contributes more in an economy with well developed financial system than in an economy with less developed financial system. Lastly, local conditions such as market structure, human capital are also important to generate a positive effect of FDI on economic growth. Tang, Selvanathan and Selvanathan (2008) explored the causal link between FDI, domestic investment and economic growth in China between 1988-2003 using the multivariate VAR and ECM. Their results indicate that there is a bi-directorial causality between domestic investment and economic growth, while there is single-directional causality from FDI to domestic investment and to economic growth. They concluded that there is a higher level of complementarily between FDI and domestic resources. Studies on FDI–growth issues in Nigeria include Oyejide (2005) which provided conceptual framework for the analysis of the macroeconomic effects of volatile capital flows. It concluded that capital flows have their pros and cons. This however depends on the initial conditions of the developing economy concerned. It can stimulate growth of the real sectors when the initial conditions are right. It could retard growth however, due to macroeconomic shocks that could undermine the stability of real sector and impose higher adjustment cost on the economy. The research study therefore recommends capacity building as a way of maximizing benefits and minimizing risks from capital flows. Otepola (2002) examines the importance of foreign direct investment in Nigeria. The study empirically examined the impact of FDI on growth and concluded that FDI contributes significantly to growth especially through exports. This study recommends a mixture of practical government policies to attract FDI to the priority sectors of the economy.

Akinlo (2004) investigates the impact of FDI on economic growth in Nigeria using data for the period 1970 - 2001. His error correction model (ECM) results show that both private capital and lagged foreign capital have small and insignificant impact on economic growth. This study however established the positive and significant impact of export on growth. Financial development which he measured as M2/GDP has significant negative impact on growth which is attributed to capital flight. In another manner, labour force and human capital were found to have significant positive effect on growth. However, an important fact about FDI and growth debate is the endogeneity case in which FDI is theorized to impact positively on economic growth and consequently, lead to greater market which in turn attracts further FDI as well (market size hypothesis). Market size hypothesis states that markets with rapidly expanding economic growth tend to give multinational firms more opportunities to make more sales and profits and therefore become more attractive to FDI.

2.3 THE CONCEPT OF ECONOMIC GROWTH

Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Growth is usually calculated in real terms, i.e. inflation-adjusted terms, in order to obviate the distorting effect of inflation on the price of the goods produced. In economics, "economic growth" or "economic growth theory" typically refers to growth of potential output, i.e., production at "full employment", which is caused by growth in aggregate demand or observed output. As an area of study, economic growth is generally distinguished from development economics. The former is primarily the study of how countries can advance their economies. The latter is the study of the economic aspects of the development process in low-income countries. Since economic growth is measured as the annual percent change of gross

domestic product (GDP), it has all the advantages and drawbacks of that measure. The modern conception of economic growth began with the critique of Mercantilism, especially by the physiocrats and with the Scottish Enlightenment thinkers such as David Hume and Adam Smith, and the foundation of the discipline of modern political economy. David Ricardo argued that trade was a benefit to a country, because if one could buy a good more cheaply from abroad, it meant that there was more profitable work to be done here. This theory of "comparative advantage" would be the central basis for arguments in favor of free trade as an essential component of growth.

The framework for understanding growth over the long term is rooted in two main theories that relates to the possible source of growth. These are theory and growth accounting. Growth theory is concerned with the theoretical modeling of the interactions among growth of factors supplies, saving, and capital formation, while growth accounting addresses the quantifications of the different determinant of growth.

Three waves of interest within the past fifty years or so have emerged in studying growth of factor supplies. The first wave is associated with the work of Sir F. Harrod (1900-1978) and E. Domar (1914-1997) in what was termed ‘Harrod-Domar Model’. The theory presupposed that growth depended on a country’s savings rate, capital/output ratio, and capital depreciation. This theory has been criticized for three reasons. Firstly, it centers on the assumption of exogeneity for all key parameters. Secondly, it ignores technical change, and lastly, it does not allow for diminishing returns when one factor expands relative to another (Essien 2001).

The second began with neoclassical (Solow) model, which contained the thinking that growths reflect technical progress and key inputs (labor and capital). It allowed for diminishing returns, perfect competition but not externalities. In the neoclassical growth process, savings were needed

to increase capital stock, capital accumulation had limits to ensure diminishing marginal returns, and capital per unit of labour was limited. It postulated that growth also depended on population growth rate and that growth rate amongst countries was supposed to converge to a steady state in the long run. Despite the modifications, the basic problems associated with the neoclassical thinking are that it hardly explains the sources of technical change.

The third is the newer alternative growth theory, which embraces a diverse body of theoretical and empirical work that emerged in the 1980s. This is the endogenous growth model. It distinguishes itself from the neoclassical growth model by emphasizing that economic growth was an endogenous outcome of an economic system, not the result of forces that impinged from outside. Its central idea was that the proximate causes of economic growth were the effort to economize, the accumulation of knowledge, and the accumulation of capital. According to this theory, anything that enhances economic efficiency is also good for growth. Thus, the theoretical framework indigenized technological progress through ‘learning by doing ’or ‘innovation processes. It introduced human capital into the model and predicted that savings rate affected growth rate as well as final income levels. It also predicted that capital accumulation could sustain long-term growth while economic policy could accelerate or decelerate growth, even in the long term. Overall, the endogenous growth model stressed the importance of innovation, human capital, governance and institutions in the overall growth objectives (Romer, 1986, 1994; Essien 2001). This study will therefore make its contributions by examining the contributions of FDI to growth. In addition, analyze the reality or Otherwise of endogeneity theory, then determine the contributory variables to FDI inflow in Nigeria.

2.4 LITERATURE REVIEW

There is a preponderance of empirical studies on the FDI-growth nexus and the determinants of FDI inflows. Early empirical works on the FDI-growth nexus modified the growth accounting method introduced by Solow (1957). This approach defined an augmented Solow model with technology, capital, labour, inward FDI and a vector of ancillary variables such as import and export volumes. Following this theory, most of the empirical works on the effects of FDI, focused on their impacts on output and productivity, with a special attention on the interaction of FDI with human capital and the level of technology (Vu and Noy, 2009).

However, recent empirical studies have been influenced by Mankiw *et al*. (1992) pioneering research which adds education to the standard growth equation as a proxy for human capital. Blomstrom *et al*. (1994) and Coe *et al*. (1997) found that for FDI to have positive impacts on growth, the host country must have attained a level of development that helps it reap the benefits of higher productivity. In contrast, De Mello (1997) finds that the correlation between FDI and domestic investment is negative in developed countries. Li and Liu (2005) found that FDI not only affects growth directly, but also indirectly through its interaction with human capital. Further, they find a negative coefficient for FDI when it is regressed with the technology gap between the source and host economy using a large sample, Borensztein *et al*. (1995) found similar results i.e. that inward FDI has positive effects on growth with the strongest impact, coming through the interaction between FDI and human capital. De Mello (1997) found positive effects of FDI on economic growth in both developing and developed countries, but concludes that the long-run growth in host countries is determined by the spillovers of knowledge and technology from investing countries to host countries.

Similarly, Balasubramanyam *et al*. (1996) found support for their hypotheses that the growth effect of FDI is positive for export promoting countries and potentially negative for import-

substituting ones. Alfaro *et al*. (2004) and Durham (2004) focused on the ways in which the FDI effect depends on the strength of the domestic financial markets of the host country. They both found that only countries with well developed banking and financial systems benefit from FDI. In addition, Durham (2004) found that only countries with strong institutional and investor friendly legal environments are likely to benefit from FDI inflows. In another work, Hsiao and Shen (2003) add that a high level of urbanization is also conducive to a positive impact of FDI on growth. Comparing evidence from developed and developing countries, Blonigen and Wang (2005) argued that mixing wealthy and poor countries is inappropriate in FDI studies. They note that the factors that affect FDI flows are different across the income groups. Interestingly, they find evidence of beneficial FDI only for developing countries and not for the developed ones, while they find the crowding-out effect of FDI on domestic investment to hold for the wealthy group of nations.

Recently, Vu and Noy (2009) carried out a sectoral analysis of foreign direct investment and growth in developed countries. They focused on the sector specific impacts of FDI on growth. They found that FDI has positive and no statistically discernible effects on economic growth through its interaction with labour.

Moreover, they found that the effects seem to be very different across countries and economic sectors. Carkovic and Levine (2005) argue that the positive results found in the empirical literature are due to biased estimation methodology. When they employed a different estimation techniques i.e. Arellano-Bond Generalized Moment of Methods (GMM), they found no robust relationship between FDI inflows and domestic growth. In line with the notion that there is an endogenous relationship between FDI and economic growth, Ruxanda and Muraru (2010) investigated the relationship between FDI and economic growth in the Romanian economy,

using simultaneous equation models. They obtained evidence of the bi-directional connection between FDI and economic growth, meaning that incoming FDI stimulates economic growth and in its turn, a higher GDP attracts FDI. In a paper most similar to this study, Li and Liu (2005) investigated the relationship between FDI and economic growth based on a panel of 84 countries, using both single equation and simultaneous equation systems. They found that FDI affects growth indirectly through its impact on human capital. This study uses pearson's product movement correlation coefficient, student T-test, and regression analysis. However, the study is different in that it is country specific (Nigeria) and involves time frame from 1999-2010. The consensus in the literature seems to be that FDI increases growth through productivity and efficiency gains by local firms. The empirical evidence is not unanimous, however. Available evidence for developed countries seems to support the idea that the productivity of domestic firms is positively related to the presence of foreign firms (Globerman, 1979; Imbriani and Reganati, 1997). The results for developing countries are not so clear, with some finding positive spillovers (Blomstrom and Sjoholm, 1999; Kokko, 1994) and others such as Aitken *et al*. (1997) reporting limited evidence. Still others find no evidence of positive short-run spillover from foreign firms. Some of the reasons adduced for these mixed results are that the envisaged forward and backward linkages may not necessarily be there (Aitken *et al.,* 1997) and that arguments of MNEs encouraging increased productivity due to competition may not be true in practice (Ayanwale, 2007). Other reasons include the fact that MNEs tend to locate in high productivity industries and, therefore, could force less productive firms to exit (Smarzynska, 2002). Caves (1996) also postulate the crowding out of domestic firms and possible contraction in total industry size and/or employment. However, crowding out is a more rare event and the benefit of FDI tends to be prevalent (Cotton and Ramachandran, 2001).

Further, the role of FDI in export promotion remains controversial and depends crucially on the motive for such investment (World Bank, 2009). The consensus in the literature appears to be that FDI spillovers depend on the host country's capacity to absorb the foreign technology and the type of investment climate (Obwona, 2004). The review here and in the references provided, shows that the debate on the impact of FDI on economic growth is far from being conclusive. The role of FDI seems to be country specific and can be positive, negative or insignificant, depending on the economic, institutional and technological conditions in the recipient countries.

Most studies on FDI and growth are cross-country evidences, while the role of FDI in economic growth can be country specific. Further, only a few of the country specific studies actually took conscious note of the endogenous nature of the relationship between FDI and growth in their analyses, thereby raising some questions on the robustness of their findings.

Finally, the relationship between FDI and growth is conditional on the macroeconomic dispensation the country in question is passing through. In fact, Zhang (2001) asserts that "the extent to which FDI contributes to growth depends on the economic and social condition or in short, the quality of the environment of the recipient country". In essence, the impact FDI has on the growth of any economy may be country and period specific and as such there is the need for country specific studies. This discovery from the literature is what provides the motivation for this study on the relationship between FDI and economic growth in Nigeria.

2.5 TRENDS AND DETERMINANTS OF FOREIGN DIRECT INVESTMENT (FDI)

It is alleged that Africa has not benefited significantly in a way that is commensurate to its policies and the rate of return on its investment from the flows of foreign direct investment from the world. The African continent did not benefit from the FDI boom that began in the mid-1980s (Honest, 2001). In the period 1991-1996, while the world average FDI inflow was $401.7 billion,

Africa's average for that period was a mere $7.1 billion, a world share of 1.8 percent. Other regions of the world received more than Africa. For example, Latin America and the Caribbean received $47.9 billion while Asia and Oceania received $83.9 billion. For the rest of the period shown, these regional groups received more than Africa. In 2001, Africa received $20 billion of the flows but still had a share of 2% of the world FDI flows. Africa's share of the developing economics was about 5% in 1993-1998. It reached a peak share of about 9% in 2001 and declined to only 6.8% in 2002. By 2004, its share of flows to developing countries stood at 7.8%. On the other hand, other country groups increased their share: Asia and Oceania increased its share of FDI to developing countries from 48% in 1999 to about 63% in 2004. Global FDI between 2000 and 2003 in 2004 inflows stood at $648.1 billion received $18.1 billion of these flows.

The main factors behind the decline were slow economic growth in most parts of the world and dim prospects for recovery at least in the short term (World Investment Report, 2003). As to be expected, the decline was uneven across countries and regions. Africa registered a decline of 41%. It was also uneven among sector rose. Africa's share of world FDI inflow rose from a share of about 0.4% in 2000 to a share of 2.4% in 2001. In 2002, 2003 and 2004 Africa's share stood at 1.8%, 2.9% and 2.8%, respectively of world FDI inflows. Africa suffered a dramatic decline in FDI inflows from $20 billion in 2001 to about $13 billion in 2002, 1 decline of 35%. In comparison to other regional groupings, Africa received less. Asia and Oceania received a share that was never less than 10 percent over the years. Indeed, it received a share of 22% in 2004 as opposed to a share of about 21% in the period 1993-98. Latin-America and the Caribbean increased share from about 7% in year 2000 to 10.4% in 2004. Foreign direct investment flows

to 23 of the 53 countries in Africa declined. In 2002, the four countries that attracted large FDI inflow in order of importance were Angola, Nigeria, Chad, South Africa and Mozambique.

The importance of FDI to Africa can be seen from the FDI inflows as a percentage of gross fixed capital formation, and FDI stock as a percentage of the GDP. For the period 2002, 2003 and 2004, FDI flows a percentage of GFCF varied between 13% and 15% with the highest of 15%, being in 2003. We have however highlighted some countries from Africa where the ratio was high. Equatorial Guinea in particular had very high ratios above 200% in the periods 2003 and 2004. Looking at FDI stock as a percentage of b GDP, FDI stock was about 28% of GDP. The countries shown however had higher ratios. In Equatorial Guinea in 2004, the ratio was 123.7%, in the case of Namibia the ratio was only about 33% in 2004. In addition to Equatorial Guinea, only Seychelles had ratio above 100%.

Looking at FDI inward stock, it increased steadily over time from $32.2 billion in 1980 to $171.0 billion in 2002. In 1980, Africa had 4.6% share of Global FDI inward stock. This share declined over time till it reached 2.4% in 2002. Similarly, Africa's share of FDI inward stock to developing countries declined from 10.46% in 1980 to 7.3% in 2002. This share is in contrast to Latin America and the Caribbean region that increased its share of FDI inward Stock to developing countries from 16.39 percent in 1980 to 32.58% in 2002. Even though Asia's share fell from 72% in 1980 to about 60% in 2002, it nevertheless attracted it itself the greatest share (World Investment report, 2003).

FDI is in general motivated by both pull and push factors. The push factors, which are external to developing countries, focus mainly on growth and financial market conditions in industrial countries. The pull factors on the other hand are dependent on a host of factors that are dependent on fairly long list of domestic policies and characteristics of host countries. While the

push factors determine the totally of available resources, the pull factors determine its allocation between countries (Ajayi, 2004). Factors influencing FDI trends include a conducive macroeconomic policy environment, increased liberalization of markets, large domestic markets, low labor cost, liberal trade regimes, availability of natural resources, good infrastructure facilitation measures and initiatives by outside bodies to promote investment in Africa (Ajayi, 2003). Other factors include investment in human capital, which can bring about educated labor force, which is crucial in attracting private investment, and improving the efficiency of public institutions.

There are many studies on the theoretical determinants of FDI and a large though inconclusive econometric literature on the determinants of FDI. Many studies have among others emphasized governance failures, problems of policy credibility, macroeconomic policy failures, and poor liberalization policies etc. as deterrents to FDI flows. In a survey of the evidences on the various determinants of FDI in Africa, Ajayi (2004) identifies the following:

a. Size of the market and growth
b. Costs and skill of the labor force
c. availability of good infrastructure
d. Country risk
e. Openness of the economy
f. Institutional environment
g. Availability of natural resources
h. Concentration of other investors (agglomeration effects)
i. Return on investment
j. Enforceability of contrast & transparency of the judicial system

k. Macroeconomic stability

l. Availability of "sweetener" policies.

African countries have in the last decade made considerable effort to improve their investment climate. Many governments are liberalization their FDI regimes as they associate FDI with positive effects for economic development and poverty reduction in their respective countries. The economic performance of the region had improved in some cases from the mid-1990s as countries adopted structural adjustment programs that hinged on pushing down inflation and government expenditures and establishing a realistic exchange rate. The upsurge that is expected in FDI inflow as a result of these improvements is, however, yet to occur.

Over time a number of studies have been carried out to examine/analyze the various determinants of FDI in Africa. In one or two cases, Africa is shown to be different from the rest of the world in terms of the various factors affecting foreign direct investment. The implications of such finding are sweeping. It means in the first place that fundamentals are present in the various economies; it is unlikely to attract FDI. According to Asiedu (2002) policies that have been successful in other regions may not be equally successful in Africa. The second is that economic policy does not matter for FDI (Balasubramayam and Salisu, 2001; the findings of various studies on the determinants of FDI in Africa been contradictory in many cases (Asiedu, 2002).

There seems to be dearth of metrical work that is solely concentrated of African countries on the determinants of FDI. In most of the studies that have been carried out, only a limited number of African countries are included. For example, Gustanaga et al (1998) consider a total of 49 countries, only 6 which are in Sub-Saharan Africa (SSA); while Schneider and Fry (1985) consider 51 countries of which 13 are in SSA. In Edwards (1990), about half of the 51 countries

are in SSA. In their econometric analysis of the determinants of FDI using panel data, Elbadawi and Mwega (1997) argue that while market size is relatively unimportant in explaining FDI flows to Africa, economic growth is an important determinant. They however find that a depreciation of the real effective exchange rate, an increase in a country's openness to trade, and the expansionary effects of fiscal balance have positive impacts on FDI. It is also shown that an improvement in removing restrictions and providing good conditions for private initiative have important bearing on FDI inflows, while the number of political upheavals has a negative bearing. Terms of trade shocks and the level of schooling are found to have little impact on FDI into Africa. Incidents of war and African regional integration arrangements are found to have limited impacts on FDI flows.

Two recent studies also contrite on Africa, the first is by Schoolman et al (2000) who analyze how government policy (mainly deficit and taxes) affects FDI. The research is however limited to South Africa. The second set of research is by Asiedu (2002, 2004). Using a cross-section data on 71 developing countries, Asiedu (2002) attempts to answer the following sets of questions (i) what factors drive FDI to developing countries (ii) are these factors equally relevant for FDI to SSA? (iii) Why has SSA attracted so little FDI (iv) Why has SSA been relatively unsuccessful in attracting FDI despite policy reform? Is Africa different? The analysis Is focused on only three main variables-the return on investment, infrastructure availability and openness to trade and does not take into account natural resource availability, which is an important determinant of FDI to Africa. The result indicates that:

a. Countries in SSA have on average received less FDI than countries in other regions by virtue of their geographical location.

b. Both higher return on investment and better infrastructure have positive impact on FDI to non-SSA countries but no impact on FDI to SSA.
c. Openness to trade promotes FDI to SSA and non-SSA countries. The marginal benefit from increased openness is less for SSA suggesting that trade liberalization will generate more FDI to non-SSA countries than SSA countries.

The results imply that Africa is different and that factors that have been successful in other regions may not equally be successful in Africa. This implies that the success stories in other places cannot in some cases be replaced in Africa. Three policy implications arise from the results of the empirical work.

a. African countries need to liberalize their trade regime in order to enhance FDI flows. The full benefit of trade liberalization is only achievable if investors perceive the reform not only credible but irreversible.
b. Policies that have worked in other countries cannot be blindly replicated in Africa since these policies may have different impacts on Africa.
c. Africa is overly perceived as risky. Consequently, countries that receive less FDI by virtue of their geographical location. To dispel the myth, there is need to disseminate information about the continent.

In another paper, Asiedu (2003) employing panel data on 22 African countries for the period 1984-2000 empirically examines the impact of several variables including natural resource endowment, macroeconomic instability, FDI regulatory framework, corruption, effectiveness of the legal system and political instability on FDI flows. The paper debunks the notion that FDI in Africa is solely driven by natural resource availability and concludes that natural resource

endowment, large markets, good infrastructure and an efficient legal framework promotes FDI while macroeconomic instability and investment restrictions deter investment flows.

The result implies that government in the region can play major roles in promoting FDI on the region through appropriate policy framework, and that FDI to Africa is not solely driven by natural resources endowment but also by other factors. In the short and medium term, government can increase their FDI by streamlining their investment regulatory framework, implementing policies, which promote macroeconomic stability and improve infrastructure. In the long run, more FDI can be achieved by curbing corruption, developing a more efficient legal framework and refunding political instability (Asiedu, 2003).

Morisset (2002) focuses exclusively on Africa and controls for resource natural resource availability. He identified which African countries have been able to attract FDI by improving their business climate. Evidence from the countries shows that pro-active policies and re-oriented governments can generate FDI interest, Morriset makes the point that African countries can also be successful in attracting FDI that is not based on natural resources or aimed at the local market but rather on regional and global markets by implementing policy reforms. Using panel data for 29 countries over the period 1990-97, he finds that GDP growth rate and trade openness have been positively and significantly correlated with the investment climate in Africa.

On the other hand, the illiteracy rate, the number of telephone lines and the share of the urban population measure of afflomeration) are major determinants in the business climate for FDI in the region. Also the political and financial risk as measured by (international Country Risk guide (ICRG) and the international investors (II) ratings did not appear significant in the regression. One of the major deterrents to FDI flows in the literature is uncertainty. Uncertainty is also known factor uncertainty in developing countries is very few. There are the studies conclude that

a negative relationship exists between uncertainty and FDI in Africa. While studies by Abekah (1998), Nnadozie (2000) Bennel (1995) and Pigato (2000) highlighted the roles played but uncertainty, none of them formally the impact of both economic and political uncertainty in African countries. The study by Lemi *et al* (2001) examines how uncertainty affects FDI flows to African economies. Analyzed in the study are total U.S. FDI flows, U.S. manufacturing FDI and U.S. non-manufacturing FDI flow to sampled host countries in Africa. Using a generalized autogressive heteroscedastic model, the study concludes:

a. The impact of uncertainty on the flow of FDI from all sources is insignificant.
b. For aggregate U.S. FDI, economic and political uncertainties are not major concerns.
c. For U.S manufacturing FDI, only political instability and government policy commitment are important factors, whereas for U.S. non-manufacturing FDI, economic uncertainties are the major impediments only when coupled with political instability and debt burden of host countries.
d. Other economic factors such as labor, trade connection, size of export sector, external debt and market size are also significant in affecting FDI flow to Africa.

The importance of the determinants of FDI in Africa led to the International Monetary Fund (IMF)/Africa Economic Research Consortium (AERC) Special workshop on the same theme (Determinants of Foreign Direct Investment in Africa) in Nairobi in December 2004. The dissemination workshop aimed at making the results of the study available to policymakers took place in Accra, Ghana, September 28-29, 2006. At the dissemination workshop, evidences from country case studies in addition to the Overview from Africa were presented. The aim of the workshop on the determinants of FDI was to identify the various factors affecting FDI in Africa and then to identify which ones have worked for that countries and what countries need to do in

order to attract FDI. A total of eight country case studies were commissioned initially from Botswana, Cote d 'Iviore, Ghana, Kenya, Nigeria, South Africa and Uganda. From the results of the various countries it was clear that different policies have been used by various countries and the response has been different. It was found on first that there is not unanimously accepted single factor determining the flow of investments. Second, while the list of factors determining investment is fairly long, NOT all determinants are equally important at a given time than another time. The weights attached to factors vary between investors. Fourth, macroeconomic and political stability are necessary but not sufficient. Fifth a critical minimum level of factors is important for the flow of FDI and lastly policies do matter in each of the countries. Sixth, for countries to derive positive effects of FDI, they must be at the driver's seat in terms of putting in a place an appropriate development strategy.

2.6 THE AMBIGUITY OF FDI'S IMPACT ON GROWTH

Zhang (2001) conducted a granger causality test to examine the direction of the relationship between FDI and GDP using time series data for 11 developing countries, He found plausible feedback effects from economic growth to FDI inflows. In addition, Choe (2003) also demonstrated that FDI granger causes economic growth and *vice versa*. In other work, some studies used FDI as the dependent variable and GDP was included to control for the market size hypothesis, which states that considering that multinational companies will always evaluate the size of the host country's market when considering the location of it FDI (Moosa, 2002). This market hypothesis has been tested in many empirical papers (see, for example, Chakraboty and Basu, 2002; Billiongton, 1999; and Wijeweera and Clark, 2006). A second set of studies has used GDP as the dependent variable and FDI as an explanatory variable. This work has estimated growth models to in an effort to understand the relationship between GDP and FDI. The present

paper falls squarely within this tradition. Accordingly, we now briefly review some of the more important previous empirical work is this category.

Balasubramayam et al. (1996) used cross-section data for 46 developing countries over the period 1970 to 1985 and employed the OLS method to estimate the relationship between economic growth and FI inflows. They found that FDI has positive spillover effects on economic growth, but that are effects are limited to host countries hat adopt export promoting policies. In contrast, positive effects were weaker for import substituting economics. In a similar vein, Borenztein et al (1995) used cross-section data for 69 developing countries during the period 1970 to 1989, but when employed seemingly unrelated regression methods for their estimations. Their main finding was that FDI has a positive effect on economic growth, but the magnitude of the relationship depends on the quality of the human capital of the host country. They observed that chief reason for the positive effects seems to be technology diffusion.

In other works, Olofsodotter (1998) apply the standard ordinary least square (OLS) method to cross-section data for 50 developing and developed countries over 190 to 1990. He found that, due to technology spillovers, the FDI stock has a positive effect on the economic growth rate. De Mello (1999) used panel fixed-effects estimation to identify the relationship, using data for 32 developed and developing nations. He established that FDI can lead to better technology and improved management in the host country. However, the evidence was rather weak on whether FDI actually creates economic growth. Using time-series data for 11 developing countries, Zhang (2001) found evidence of growth enhancement from FDI. However, the magnitude again appeared to depend on host country. By contrast, Carkovic and Levine (2002) employed both panel and cross-section data for 72 developing and developed countries over time period 1960-1995 period to investigate the issue, using both OLS and Generalized Method of Moments

(GMM) methods of estimation. They established that FDI inflows do not exert a robust influence on economic growth. With the aid of panel data for 80 developed and developing countries, Choe (2003) conducted a Granger causality test for GDP and FDI. He found that FDI Granger-caused economic growth and vice versa, but the effects are more apparent from growth to FDI. Bengoa and Sanchez-Robles (2003) used panel data for 18 Latin American countries applying random and fixed-effects techniques for its estimation. They established a positive effect on economic growth and the magnitude seemed to depend on host country conditions. Johnson (2006) employed a panel of 90 countries and hypothesized that FDI should have a positive effect on economic growth as a result of technology spillovers and physical capital inflows. Performing both panel and cross-section analysis, he found that FDI inflows enhance economic growth in developing economies, but not in developed economies. In addition, Johnson (2006) also provides an excellent review of the existing empirical literature on FDI and economic growth that invokes macroeconomic data.

Finally, Alfaro (2003) use cross-country data for the period 1981 to 1991 examined the impact of FDI on growth in the primary, manufacturing and services sectors. The author suggested that the benefits of FDI vary greatly across sectors. Thus, FDI in the primary sector tended to have a negative effect on growth, this relationship was positive for the manufacturing sector, and ambiguous in the service sector. The macroeconomic empirical literature finds weak support for an exogenous positive effect of FDI on economic growth. The interaction between FDI and economic growth is not automatic. Indeed the earlier empirical world finds contradictory results. For a number of 72 developing countries between 1960 and 1978, Jackman (1982) finds that FDI had no significant impact on growth once cognizance is taken of the country size. In another study, Rothgeb (1984) finds that FDI was negatively linked to growth for the set of 18

developing countries as a whole, while for the set of Latin American countries, FDI positively affected growth. Most recent evidence has established a robust link between FDI and growth. In the aggregate cross-country studies, De Mello (1996) finds evidence that FDI gives rises to growth in five Latin American economies. Williams et al (1999) find that for the eastern Caribbean central bank unified currency Area, FDI appears to crowd in gross investment and has a positive impact on growth. Borenzstein et al (1998) find that FDI is an important vehicle for the transfer of technology, contributing more to growth than domestic investment. Also in an earlier work, Borenzstein et al (1995) show FDI is an important vehicle for the transfer of technology, contributing relatively more to growth than domestic investment. The higher productivity holds only when the most country has a minimum threshold stock of human capital. Also, FDI has the effect of increasing total investment in the economy more than one for one, which suggests the predominance of complementary effects with domestic firms.

Country and industry level studies find positive impacts of FDI on economic growth. In the study by Pbwona (1999) for Uganda, a positive relationship is found between FDI and growth just as the research by Chen et al (1995) finds a positive relationship for China. Similarly, Bielschowsky (1994) and Kokko find a positive impact of FDI on labor productivity and growth in Brazilian and Uruguayan manufacturing industries, respectively. From the literature it is clear that a country's ability to take advantage of the positive effects of FDI might be limited by local conditions such as the development of the local financial markets, or the educational level of the country. This is called absorptive capacity. Borensztein et al (1998) and xu (2000) show that FDI brings technology, which translate into higher growth only when the host country has a minimum threshold of stock of human capital. Alfaro et al (20004), Durham (2004) and Hermes and Lensink (2003) provide evidence that only countries with well-developed financial markets

gain significantly from FDI in terms of their growth rates. The research by Alfaro el al (1006) shows:

a. An increase in FDI leads to higher growth rates in financially developed countries as opposed to the rates observed in financially poor countries.

b. Local conditions such as the development of financial markets and the educational level of a country, affect the impact of FDI on growth;

c. Policymakers should exercise caution when trying to attract FDI that is complementary to local production. The best connection is between final and intermediate industry sectors, not necessarily between domestic foreign final goods producers;

d. Human capital plays a critical role in achieving growth benefits from FDI.

The non-automatic transmission process of FDI too growth is shown in several other studies. The jury is still out on whether FDI directly causes economic growth without preconditions. Tsai (1995) finds that FDI leads to growth when human capital is augmented. De Mello (1997) finds that FDI leads to growth when there are efficiency spillovers to domestic firms or in other words when domestic firms' production processes improve as a result of exposure to more technologically advanced methods of the transitional corporation. Krause (1998) uses an error correction model to find that FDI leads to growth even when the effects of fiscal policy, domestic education expenditures and savings growth are taken into account. Alfaro (2003) using cross-country data for the period 1981-1999 shows that total FDI exerts ambiguous effect on growth. FDI in the primary sector tend to have a negative effect on growth while investment in manufacturing has a positive effect. Evidence from the service sector is ambiguous. The various findings (in particular the fixed results) with respect to the FDI growth linkage have significant policy implications for Africa (UNCTAD, 2005). First, the fact that the FDI-growth linkage is

not automatic implies that right policies must be designed by various countries to ensure that FDI is directed to areas and sectors where it will have the greatest impact. Second, whether there is a positive FDI-growth linkage depends on the country and sectors of the economy. In other words, there is need for specific country study in order to meaningfully assess the FDI-growth linkage. Third, the issue of absorptive capacity mentioned in terms of human capital development, and financial development are important. Thus policy must be all encompassing in order to derive positive impacts. Thus, the positive impacts of FDI can be achieved but with the right policies. It can therefore be rightly said that whether FDI contributes to development depends on macroeconomic and structural conditions in host countries.

There is no doubt that FDI increase growth productivity and efficiency gains by local firms. His empirical evidence is not unanimous; however, available evidence developed countries seems to support the idea that the productivity of domestic firms is positively related to the presence of foreign firms (Imbriani and Reganeti, 1997; Globeram, 1979). The results for developing countries are not so clear, with some finding positive 1979). The results for developing countries are not so clear, with some finding positive spillovers (Blomstrom and Sjoholm, 1999; Kokko, 1994; Blomstrom, 1986) and others such as Aitken et al. (1997) reporting limited evidence. Still others find no evidence of positive short-run spillover from foreign firms. Some of the reasons adduced for these mixed results are that the envisaged forward and backward linkages may not necessarily be there (Aitken et al. 1997) and that arguments of TNCs encouraging increased productivity due to competition may not be true in practice Aitken et al. (1999). Other reasons include the fact that TNCs tend to locate in high productivity industries and, therefore, could force less productive firms to exit (Smarzynska, 2002). Cobham (2001) also postulates the crowding out of domestic firms and possible contraction in total industry size and/or

employment. However, crowding out is a more rare event and the benefit of FDI tends to be prevalent (cotton and Ramachandran, 2001). Further, the role of FDI in export promotion remains controversial and depends crucially on the, positive for such investment (World Bank, 1998). The consensus in the literature appears to be that FDI spillovers depend on the host country's capacity to absorb the foreign technology and the type of investment climate (Obwona, 2004). The review shows that the debate on the impact of FDI on economic growth is far from being conclusive. The role of FDI seems to be country specific, and can be positive, negative or insignificant, depending on the economic, institutional and technological conditions in the recipient countries. Most studies on FDI and growth are cross-country evidences, while the role of FDI in economic growth can be country specific. Further, only a few of the country specific studies actually took conscious note of the growing relationship between FDI and growth in their analysis, thereby raising some questions on the robustness of their findings. Finally, the relationship between FDI and growth is conditional on the macroeconomics dispensation the country in question is passing through. In fact, Zhang (2001) asserts that, the extent to which FDI contributes to growth depends on the economic and social condition or in short, the quality of the environment of the recipient country". In essence, the impact FDI has on the growth of any economy may be country and period specific, and as much there is the need for country specific studies.

2.7 POTENTIAL IMPACTS OF FDI

There are often some doubts about the catalyst role of FDI in the growth process in some quarters (see UNCTAD 2005). It is true that FDI brings both costs and benefits which must be properly evaluated at the point of decision-making on the best policy approach that must be adopted. The evaluation will inevitably be country-specific. It has been suggested (UNCTAD,

2005 p.65) “policy makers in Africa should give more careful consideration to these trade-offs if they wish to maximize the benefits from FDI’. Thus, the domestic policy framework is of crucial importance in determining whether the net effects of FDI inflows are positive. FDI is not without its negative impacts. While we have explored the positive aspects of FDI, it does not mean that it cannot lead to undesirable outcomes in all cases. In most cases as we shall show, these negative trends are not unavoidable. Indeed they are the results of distortions and inefficiencies in the domestics economy, which can be avoided through appropriate policy tools and a sound regulatory framework (Sun, 2002). The three negative effects that are mentioned in the literature are: the crowding out effect of FDI, the balance of payments problems of FDI and the enclaves economy created by FDI. These are discussed in turn (Sun 2002).

a. The crowding out effect of FDI: it is often said that foreign investors may take away investment opportunities for the local investor.

b. The Balance of payments problems as result of FDI: to the extent that profits are repatriated they constitute a financial outflow that has to be set against net annual contribution of FDI inflows to a host country’s balance of payment. With the increased liberalization of current and capital account this issue is of less concern. Available evidence for Africa in the 1990s show there was never a negative external balance as a result of FDI. In the long run, FDI cannot be a cause for balance of payments problem except in countries with seriously misaligned exchange rates.

c. Enclave Economics Created by FDI: it is claimed that FDI is often narrowly based with limited overall impact on host countries and benefiting only a small group of the population. There are two areas where such anxieties are expressed. The first is in the mining and other raw material extraction projects. In the former, investment is capital intensive and only a small

fraction of the nationals are part of the workforce. This implies that few linkages if any exist; making their indirect impacts on the economy is the EPZs. With the amount of concessions and special privileges given for location in this zone, they exhibit limited linkages with the local economy.

2.8 FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH IN NIGERIA

Nigeria is a growing and relatively open economy. In 2007, the economy of Nigeria was the 29th largest economy in the world by purchasing power parity with gross domestic product for 2007 was estimated to be $357.9 billion (World Bank, 2007). Nigeria has a consistent record of economic growth in GDP over the period 1970-2005, averaging an annual rate of about 7%. Because of its open economy, externalities have had a major impact from time to time including the oil crises of the 1970s, the downturn in the electronics industry in the mid 1980s, and especially the Asian financial crisis of 1997. The impact of this crisis was still being felt early in the twenty-first century. Standards of living of the majority of the population were transformed over the 30-year period with the level of GDP per capita in 2000 being about four times that 1970. The boom in the economy went uninterrupted from 1988 to 1996 when the economy grew by between 7% and 10% per annum. The main source of growth was the manufacturing sector whose share of GDP increased to 31.45 IN 2005 (Ministry of Finance, 2006).

A large number of empirical studies on the role of FDI in host countries suggest that FDI is an important source of capital, complements domestic private investment, is usually associated with new job opportunities and enhancement of technology transfer, and boosts overall economic

growth in host countries. De Mello (1999) attempt to find support for an FDI-led growth hypothesis when time series analysis and panel data estimation for a sample of 32 Organization for economic Cooperation and Development (OECD) and non-OECD countries covering the period 1970-1990 were made. He estimates the impact of FDI on capital accumulation and output growth in the recipient economy. Nair-Reichert and Weinhold (2001) apply mixed fixed and random estimation to examine the relationship between FDI and growth in developing countries and find that there is a causal link between FDI and growth.

Ericsson and Irandoust (2001) examined the causal effects between FDI growth and output growth for the four OECD countries applying a multi-country framework to data from Denmark, Finland, Norway and Sweden. The authors failed to detect any causal relationship between FDI and growth for Denmark and Finland. They suggested that the specific dynamics and nature of FDI entering these countries could be responsible for these non causality results. Liu et al (2002) tested the existence of a long-run relationship among economic growth, foreign direct investment and trade in China. Using a co-integration framework with quarterly data for exports, imports, FDI and growth from 1981 to 1997, the research found existence of a bi-directional causal relationship among FDI, growth, and exports. Chakraborty and Basu (2002) utilize the technique of co-integration and error-correction modeling to examine the link between FDI and economic growth in India. The results suggest that GDP in India is not Grander caused by FDI, and the causality runs more from GDP to FDI. Wang (2002) explores the kinds of FDI inflow most likely contribute significantly to economic growth. Using data from 12 Asian economies over the period of 1987-1999, she found that only FDI in the manufacturing sector has a significant and positive impact on economic growth and attributes this positive contribution to FDI's spillover effects. Hsiao and Shen (2003) find a feedback association between FDI and GDP in their time-

series analysis of the data from China. Using data on 80 countries for the period 1971-95, Choe (2003) detects two-way causation between FDI and growth, but the effects are more apparent from growth to FDI. Chowdhury and Mavrotas (2005) examined the causal relationship between FDI and economic growth for three developing countries, namely Chile, Malaysia and Thailand. They found that it is GDP that causes FDI in the case of Chile and not vice-versa, while for both Malaysia and Thailand, here is a strong evidence of a bi-directional causality between the two Variables.

Duasa (2007) examines the causality between FDI and output growth in Malaysia, the study found no strong evidence of causal relationship between FDI and economic growth. This indicates that, in the case of Malaysia FDI does not cause economic growth, vice versa, but FDI does contribute to stability of growth as growth contributes to stability of FDI. The results from these bilateral causality tests are mixed. This again indicates that the relationship between FDI and economic growth is far from straightforward. It varies across countries and time periods. In addition, there are some drawbacks to the causality tests reviewed above. Most of these studies employ Granger causality tests in the framework. Foreign Direct Investment (FDI) has been seen as a key driver underlying the strong growth performance experienced by the Nigerian economy. Policy reforms, including the introduction of the investment incentives Act 1968, the establishment of free trade zones in the early 1970s, and the provision of export incentives alongside the acceleration of open policy in the 1980s, led to a surge of FDI in the late 1980s. To attract a larger inflow of FDI, the government introduced more liberal incentives including allowing a larger percentage of foreign equity ownership in enterprise under the promotion of investment Act (PIA), 1986. This effort resulted in a large inflow of FDI after 1987 (the inflow of FDI grew at an annual average rate of 38.7% between 1986). Apart from these policy factors,

it is generally believed that sound macroeconomic management, sustained economic growth, and the presence of a well functioning financial system have made Nigeria an attractive prospect for FDI (Ministry of Finance, 2001). The major areas of investment by foreign companies are in sectors such as electrons and electrical products, chemicals and chemical products, basic metal products, non-metallic mineral products, food manufacturing, plastic products, and scientific and measuring equipment (Ministry of Finance, 2001). inward FDI performance index for Nigeria is less than of inward FDI potential index which means in recent years Nigeria is not able to attract FDI as much as her actual potential (Table 1).

In fact FDI flows into Nigeria had decreased steadily and Nigeria was ranked 71 in 2007 (UNCTAD) ranked Nigeria as the sixth largest destination for FDI in 1995).

Table 1: Nigeria Rankings by Inward FDI Performance Index, Inward FDI Potential Index (2005-2007)-Inward FDI Performance Index Inward FDI Potential Index

Economy	2005	2007	2005	2007
Nigeria	67	71	41	40

Source: UNCTAD (2008)

In 2007 inward FDI flows to Nigeria were found around US$8,043 million, and it was 2.62% (World Investment report, 2008). However, there has been a persistent decline in the ratio of FDI inflows to GDP since the early 1990s. While this disappointing pattern of development has become a major concern of researchers and policy makers. The Nigerian-American Electronics Industry (NAEI) argues that the fall in the flow of FDI into Nigeria is because her incentives are not competitive.

There have been some studies on investment and growth in Nigeria with varying results and submissions. For example, Odozi (1995) reports on the factors affecting FDI flow into Nigeria in both the pre and post Structural Adjustment programmed (SAP) eras. The macro-economic policies in place before SAP discouraged foreign investors. This led to the proliferation and growth of parallel markets and sustained capital flight. Ogiogio (1995) reports negative contributions of public investment to GDP growth in Nigeria for reasons of distortions. However, Auko (1961) and Obinna (1983) report positive linkages between FDI and economic growth in Nigeria. Endozien (1968) discusses the linkage effects of FDI on the Nigerian economy and submits that these have not been considerable and that the broad linkage effects were lower than the Chenery-Watanabe average (Cehenry and Watanabe, 1958). Oseghale and Amonkihienan (1987) found that FDI is positively associated with GDP, concluding that greater inflow of FDI will spell a better economic performance for the country. Ariyo (1998) studied the investment trend and its impact on Nigeria's economic growth over the years. He finds that only private domestic investment consistently contributed to rating GDP growth rates during the period considered (1970-1995).

Furthermore, there is no reliable evidence that all the investment variables included in his analysis have any perceptible influence on economic growth. He therefore suggests the need for an institutional rearrangement that recognizes and protects the interest of major partners in the development of the economy. Examining the contribution of foreign capital to the prosperity or poverty of low developed Countries (LDCs). Oyinlola (1995) conceptualized foreign capital to include foreign loans, direct foreign investments and export earnings. Using Chenery and Stout's two-gap model (Chenery and Stout, 1966), he concluded that FDI has a negative effect on economic development in Nigeria. Further, on the basis of time series data, Ekpo (1995) reports

that political regime, real income per capita, rate of inflation, world interest rate, credit rating and debt service were the key factors explaining the variability of FDI into Nigeria. Adelegan (2000) explored the seemingly unrelated regression model to examine the impact of FDI o economic growth in Nigeria and found out that FDI is pro-consumption, pro-import and negatively related to gross domestic investment. Ayanwale and Bamire (2001) assess the influence of FDI on firm level productivity in Nigeria and report a positives spillover of foreign firms on domestic firm's productivity. Much of the other empirical study on FDI in Nigeria centered on examination of its nature, determinants and potentials. For example, Odozi (1995) notes that foreign investment in Nigeria was made up of mostly "Greenfield" investment mostly utilized for the establishment of few enterprises and some through the existing enterprises through privatization in Nigeria actually commenced in 1999 which allowed for scrap field. Aremu (1997) categorized the various types of foreign investment in Nigeria into Five: wholly foreign owned; joint ventures; special contract arrangements; technology management and marketing arrangements; and subcontract co-production and specialization.

In his study of the determinants of FDI in Nigeria, Nyanwu (1998) identified change in domestic investment, change in domestic output or market size, indigenization policy, and change in openness of the economy as major determinants of FDI. He further noted that the abrogation of the indigenization policy in 1995 encouraged FDI inflow into Nigeria and that effort must be made to raise the nation's economic growth so as to be able to attract more FDI. Jerome and Ogunkola (2004) assessed the magnititude, direction and prospects of FDI in Nigeria. They note that while the FDI regime in Nigeria was generally improving. Some serious deficiencies are mainly in the area of the corporate environment (such as corporate law, bankruptcy, labour law, etc.) and institutional uncertainty, as well as the rule of law. The establishment and the activities

of the Economic and Financial Crimes Commission, the Independent Corrupt Practices Commission, and the Nigerian Investment Promotion Commission are efforts to improve the corporate environment and uphold the rule of law.

Studies on FDI growth issues in Nigeria include Oyejide (2005) which conceptual framework for the analysis of the macroeconomic effects of volatile capital flows. It concluded that capital flows have their pros and cons. This however depends on the initial conditions of the developing economy concerned. It can stimulate growth of the real sectors when the initial conditions are right. It could retard growth however, sue to macroeconomic shocks that could underline the stability of real sector and impose higher adjustment cost on the economy. The paper therefore recommends capacity building as a way of maximizing benefits and minimizing risks from capital flows. Otepola (2002) examines the importance of foreign direct investment in Nigeria. The study empirically examined the impact of FDI on growth. He concluded that FDI contributes significantly to growth especially trough exports.

Akinlo (2004) investigates the impact of FDI on economic growth in Nigeria using data for the period 1990 to 2001. His error correction model (ECM) results show that both private capital and lagged foreign capital have small and insignificant impact on economic growth. This study however established the positive and significant impact of export on growth.

2.9 FOREIGN DIRECT INVESTMENT INFLOW TO NIGERIA

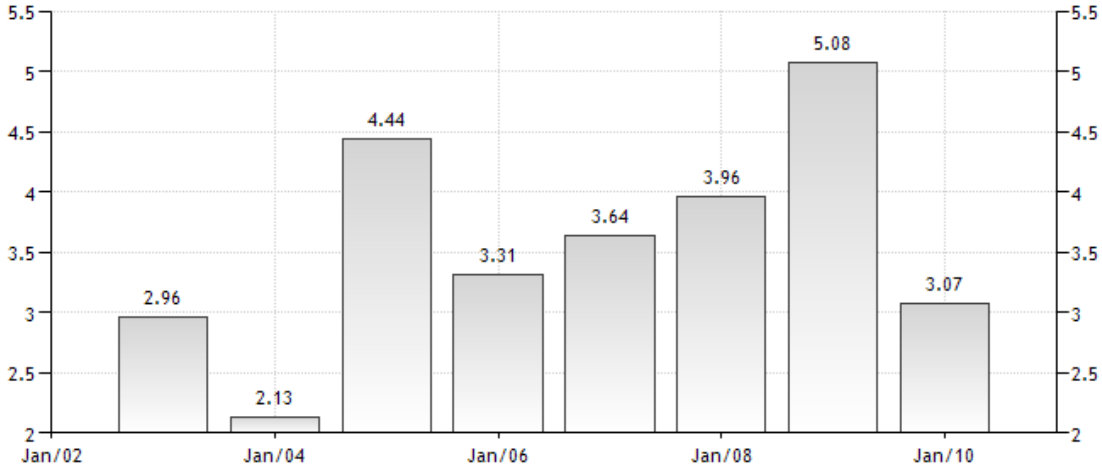
The crash of world oil prices in 1980 caused a massive divestment from the nation and the low level of inflow obtained. Other government legislation such as the Companies Tax Act 1961, Exchange Control Act 1962 and Immigration Act 1963 had also served to discourage FDI during the early period.

The adoption of the macroeconomic programme embedded in the SAP started the process of gradual increase in the FDI inflow. As noted earlier, among the details of the SAP policy measures were the inauguration of the IDCC, the Companies and Allied Matters Decree 1990, financial liberalization and the debt equity swap programmes. These steps were targeted at encouraging FDI inflow. The programmes were witnessed a drop in the rate of inflow largely due to a protracted political impasse that disrupted productive activities and created a regime of uncertainty, with subsequently encouraged capital flight.

In 1995, in order to liberalize the investment climate in the country, the government promulgated the Nigerian Investment Promotion Commission (NIPC). The commission took over from the IDCC as a one step agency to facilitate and encourage foreign investors into the country. The aftermath of the promulgation of the commission was a momentous increase in the FDI inflow into the country especially into the non-oil sectors. Additional policy measures included guided deregulation, Foreign Exchange (Monitoring and Miscellaneous Provisions) Decree 1999, and the establishment of export processing zones (EPZ), all aimed at improving the business environment of the country. The current sustained upward trend in the FDI inflow is due largely to the privatization and commercialization exercise of the government whereby public enterprises are put for sale to the investing public. This exercise has attracted considerable inflows since 1999. For example, the deregulation of the telecommunication sector by granting licenses for global system for GSM operators in 1999 caused the FDI in the telecommunications sector to increase from a mere US$50 million at the end of 1999 about US$2.1 billion by the end of 2002. The NIPC attributed over 75% of this increase to mobile telephone network investors. Overall, the linear trend line shows an increasing trend of FDI inflows during the period under consideration. Inflow of FDI into the oil sector held the dominant position in the early 1970s.

The low level of inflow into all the sectors, however, took an upward turn in 1986 following the adoption of the SAP. The story of the manufacturing FDI is similar to that of the oil industry in that the FDI inflow took an upward trend in 1986 as a result of the adoption of the SAP. The increase in manufacturing FDI actually started before 1986. This may be traced to the government's new policy 1981, which was policy step to encourage manufacturers. Further efforts by the government to create a favorable business environment through the provision of infrastructure facilities, restriction of imports, and the privatization and commercialization programme encouraged FDI inflow into the sector. As with the oil sector, the inflow into manufacturing witnessed a dramatic upsurge as a result of the NIPC decree of 1995. The subsequent sustained increase in FDI inflow may be attributed to further commercialization and privatization efforts of the government and the creation of the EPZs. The hostile macroeconomic environment that encouraged capital flight, coupled with the ineffective operations of the refineries, which occasioned large reliance on important refined petroleum products, were responsible for the downward spiral of the oil FDI in the early 1990s. The process of privatizing and commercializing public enterprises by which the Nigerian National Petroleum Corporation (NNPC) and its subsidiaries were put up for sale was responsible for the harp upward inflow into the oil sector between 1993 and 1995. The upward trend was pushed further by the promulgation of the NIPC decree in 1995. Further, deregulation of the downstream sector of the oil industry opened up the sector to more FDI inflow after the inception of the civilian administration in 1999. The inflow into the communications sector remained very low until 1995 when the NIPC decree came into operation as part of the privatization and deregulation exercise the Federal Government established the Nigerian Communications Commission in 1993 to encourage private sector participation and issue licenses to private companies wishing to undertake

telecommunication services. In 1999, the government began the complete deregulation of the telecommunication sector by licensing GSM service providers. This page includes a historical data chart, news and forecasts for Foreign direct investment; net inflows (% of GDP) in Nigeria from 2002-2010.



Source: World Bank Trading Economics Report, 2012.

The Foreign direct investment; net inflows (% of GDP) in Nigeria was last reported at 2.96% in 2003,decreases to 2.13% in 2004, also, a drastic increase was recorded in 2005 to be 4.44% which dropped to 3.31% in 2006. Increases were recorded to be 3.64%, 3.96%, 5.08% in 2007, 2008 and 2009 respectively which later dropped to 3.07% in 2010 according to a World Bank report published in 2012. This series shows net inflows (new investment inflows less disinvestment) in the reporting economy from foreign investors, and is divided by GDP.

2.10 SECTORAL ANALYSIS OF FDI INFLOW IN NIGERIA

Although there has been some diversification into the manufacturing sector in recent years, FDI Nigeria has traditionally been concentrated in the extractive industries. Table 2 shows the sectoral composition of FDI in Nigeria from 1970-2001, data from about 51% in 1970-1974 to 30.7% in 2000/01. On the average, the stock of FDI in manufacturing over the period of analysis compares favorably with the mining and quarrying sector, with an average value of 32%. The stock of FDI in trading and business services rose from 16.9% in 1970-1974 to 32.6% in 1985-1989, before nose-diving to 8.3% in 1990-1994. However, it subsequently rose to 25.8% in 2000/01.

Table 2: Sectoral Composition of FDI in Nigeria, 1970-2001 Percentage

Year	Mining & quarrying	Manufacturing	Agric & construction	Transport & communication	Building	Trading & business	Miscellaneous Services
1970-1974	51.2	25.1	0.9	1.0	2.2	16.9	2.7
1975-1979	14.1	32.4	2.5	1.4	6.4	20.4	6.1
1980-1984	14.1	38.3	2.6	1.4	7.9	29.2	6.5
1985-1989	19.3	35.3	1.4	1.1	5.1	32.6	5.2
1990-1994	22.9	43.7	2.3	1.7	5.7	8.3	15.4
1995-1999	43.5	23.6	0.9	0.4	1.8	4.5	25.3
1995-1999	43.5	23.6	0.9	0.4	1.8	4.5	25.3
2000-2001	30.7	18.9	0.6	0.4	2.0	25.8	21.5
1970-2001	30.3	32.2	1.7	1.1	4.7	19.1	10.9

Source: CBN *Statistical Bulletin* (Various issues)

Agriculture, transport and communications, and building and construction remained the least attractive hosts of FDI in Nigeria. If the report from the privatization programme (CBN 2004:

72) is anything to go by, however, the transport and communication sector seem to have succeeded in attracting the interest of foreign investors, especially the telecommunication sector. Nigeria is currently described as the fastest growing mobile telecommunication operators were licensed, the rate of subscription has gone up and does not show any sign of abating; in fact, MTN (Nigeria)-the leading mobile phone operator-has acquired another line having oversubscribed the original line. The four operators- MTN, V-mobile, Global-Comm and M-tel- are currently engaged in neck and neck competition that has forced the rates down and in the process fostered consumer satisfaction. The effect of this development is yet to be translated to the rest of the economy. However, De Gregorio (2003) notes that one of the features of FDI is that it tend to be relatively stable in other words, when a crisis erupts, FDI cannot flee the country as easily as more liquid forms of capital such as portfolio flows and debt. A simple way to illustrate this point is to examine the persistence of different flows by estimating the coefficient of variation and the autocorrelation coefficient for a series of annual flows. The coefficient of variation measures the volatility or otherwise of a variable.

The coefficient of variation for the nominal FDI is 15.96%, which is rather low when compared with figures such as 23,366% for Korea, 3,719% for Indonesia, 1,123% for Argentina, 1,110% for the United States and 1,043% for France, as computed by Claessens et al. (1995) for the period 1973.1 to 1992.1. The figures for the other variables were even lower, thus suggesting relatively less volatile nature. The more recent way of estimating persistence is to examine the unit root system; any series that is not stationary about the mean suggests persistence. The figures in the table suggested that the variable are co-integrated to the order of one, hence the variables could be persistent. This suggests that if Nigeria succeeds in attracting FDI inflows. The inflow would continue; on the other hand, should FDI stop flowing in, there will be a long

wait before the drought is over. The results in the table corroborate the results of Anyanwu (1998), who found a high autocorrelation for FDI in Nigeria, suggesting persistence.

Africa continues to attract FDI only into sectors where competitive advantages outweigh the continent's negative factors. These include minerals, timber, coffee, and oil (Mills and Oppenhermer, (2002), the structure of FDI as shifted towards services worldwide. In the early 1970s the sector accounted for only one-quarter of the world FDI stock; in 1990 this share was less than one-half and by 2002 it has risen to about 60% (UNCTAD, 2004). Contrary to common perception, the concentration of FDI in Africa is no longer in the mineral resources only. Even in the oil exporting countries services and manufacturing are becoming key sectors for FDI.

Recently, FDI has been diversifying into other sectors- in particular manufacturing and services. In 1992, 30% of FDI stock in Nigeria was in Nigeria was in the primary sector, 50% in manufacturing and 20% in services. Similarly in 1995, 48% of FDI inflows into Egypt were in services, 47% in manufacturing and only 4% in the primary sector. Over time, Mauritius has also been able to attract FDI into the manufacturing sector mainly in textiles and electronics. Morocco's FDI receipts have risen five-fold in the past decade, most of it in manufacturing and services.

In terms of the sector of FDI, Germany's FDI has increasingly been going into the manufacturing sector. Also, the FDI from United States of America has been going into manufacturing mainly in food and metal products, primary and fabricated metals (UNCTAD, 1999). the share of United State of America's FDI stock in Africa that is in the primary sector dropped from 79% in 1986 to 53% in 199 (Ikiara, 2003). A survey of multinational corporations in 2000 indicated that the sectors with the greatest potential to attract FDI in Africa are tourism, natural resources industries; and industries for which the domestic market is important. As it happens in many

African countries in recent times, telecommunication is in this category. This has assumed great importance with the privatization of telephone companies in many (GSM) in many African countries.

Africa Has not been able to attract enough foreign direct investment commensurate with the fact that the rate of return to investment in Africa has been found to be higher than other developing countries (Amar, 2000). This is because investment in the perception of its political and economic activities and the poor infrastructure facilities in addition to the absence of adequate legal framework for the enforcement of contracts. Too often, potential investors shy away from Africa because of the negative perception of the continent. This outright condemnation of a whole continent conceals the heterogeneity of the continent and the complex diversity of economic performance and the existence of investment opportunities in individual countries. Indeed some African countries have been able to attract FDI based on their macroeconomic policy framework and the conducive regimes put in place while others have not. There is also problem of lack of information and deep knowledge about conditions in Africa. Consequent to reforms, Africa has become much more attractive as a location for mining FDI. A number of post conflict economies in particular Angola and Mozambique have also seen in recent year's sharp increases in mineral production (UNCTAD, 200).

2.11 EMPIRICAL REVIEWS

Among the recent popular and influential studies features Borensztein et' al, (1995) tested the effect of FDI on economic growth in a frame work of cross-country regression for 69 developing countries over the last decade. Their results suggest that FDI was in fact an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment. Also, the authors also found that there was a strong complementary effect between FDI and

human capital, that is, the contribution of FDI to economic growth was enhanced by its interaction with the level of human capital in the host country. They motivate the empirical study by a model of endogenous growth, in which the rate of technological progress take place is the main determinant of the long term growth rate of income.

They also investigate the effect of FDI and domestic investment, namely, whether there is evidence that inflow of foreign capital ”crowd out” domestic investment. The result shows a crowding-in effect, that is one dollar increase in the net inflow of FDI is associated with an increase in total investment in the host economy of more than one dollar. The main regression results indicate that FDI has a positive effect on economic growth, although the magnitude of this effect depends on the stock of human capital available in the host country. The cross country regression also shows that FDI exerts a positive effect on domestic investment, presumably because the attraction of complementary activities dominates the displacement of domestic competitors. This is an indirect effect of FDI on growth, since it operates through “pulling in” other sources of investment. Finally, the direct effect of FDI may be quite different for countries with different levels of human capital, and, in fact, for countries with very low levels of human capital the direct effect is negative. All regressions are based on panel data for the two decades 1970-79 and 1980-89, and were estimated using the seemingly unrelated regressions technique (SUR). But they do not report cross-section regressions which basically yield the same qualitative results as those of the panel estimation. This study will therefore make its contributions by examining the contributions of FDI to growth. In addition, analyze the reality or otherwise of endogeneity theory, and also if there is bidirectional relationship between foreign direct investment and economic growth and then determine the contributory variables to FDI flow in Nigeria.

Li and Liu (2005) also investigated the hypothesis using both single equation and simultaneous equation systems in both developed and developing countries using a large cross-country sample for the period of 1970-1999 and accounted for the endogeneity theory. FDI and economic growth were reported to become significantly complementary to each other and form an increasingly endogenous relationship only from the mid – 1980's. Li and Liu found that there was a strong complementary connection between FDI and economic growth in both developed and developing countries. They further reported that FDI not only directly promoted economic growth by itself but also indirectly did so via human capital. The authors also confirmed that inward FDI tends to be attracted to any host country with a large market size. This study uses pearson's product movement correlation coefficient and student T-test. However, the study is different in that it is country specific (Nigeria) and involves a time frame (2000-2010). The consensus in the literature seems to be that FDI increases growth through productivity and efficiency gains by local firms.

De Mello (1999) attempted to find support for FDI led growth with time series analysis and panel data estimation for a sample of 32 OECD and non-OECD countries covering the period 1970-1990 his research study estimated the impact of FDI on capital accumulation, output, and TFP growth in the recipient economy. They tested their hypothesis of the output growth and investment rates using the augmented Dickey-Fuller equation below:

$$\Delta gi\ (t) = \alpha + \sum \alpha i\ gi(t-i) + \sum \alpha j\ \Delta gi(t-j) + ei(t)$$

Where **gi** is the growth rate of **i**, **n** and **m** are chosen according to the Schwartz criteria to produce white nose disturbances terms **eji** and **i= y, k, kw** for **k=kd+kw**. Obviously, **gi=FDI**, if **i=k**.

Their result in the case of the OECD countries, both FDI and total investment were found to follow a time series trend in Italy, Germany, Uk, and USA, without a corresponding trend for output growth. For the remaining countries, FDI alone (Australia, Belgium, Finland, Spain and Sweden) or total investment alone (Australia, Denmark, New Zealand and Switzerland) seem to follow a time trend without a counterpart in output growth. Hence, for the OECD sample, there is no time series evidence of linear endogenous growth derived from FDI and/ or capital accumulation in the period under examination.

However, for the non-OECD countries, in the case of Ecuador and Ivory Coast, there is a negative time series trend in the case of FDI (and capital investment in the later country) and a negative time trend in output growth. Their finding is suggestive of a linear endogenous relationship between output growth and FDI. Both FDI and capital investment also appear to follow a time trend in the case of Dominican Republic, Mexico and the Philippines without a corresponding trend in output growth. But In Mexico, De Mello's finding states that, the positive trend in FDI may be offsetting the negative trend in capital formation, despite the fact that, in oil-exporting countries, the dynamics of FDI are expected to differ from the case of their non-oil-exporting counterparts. The author reported that FDI had a positive impact on output growth and also that there was a dominant complementary effect between FDI and domestic investment which he pointed out some important explanatory factors for the surge of FDI inflows in developing countries in recent years are foreign acquisition of domestic firms in reform driven privatization programmes, globalization and international trends in production, operations and investment, and increased economic and financial integration, among others. Therefore, using Nigeria for this research study and the scope to be covered ranges from the period of 1999 - 2010

to determine whether FDI has actually impacted on the nation's economy by using two variables (GDP and FDI).

Lipsey and Chrystal (2003) observed that FDI is often undertaken by domestic firms which have accumulated some advantages in the local market. Such advantages include patents and know-how that bestowed on them advantages when they enter into foreign markets.

According to Lipsey and Chrystal (2003), FDI often generates somewhat higher-paying jobs that might otherwise be available to local citizens. Secondly, it generates investment that may not be possible with the local resources only. Thirdly, it links the recipient economy into the world economy in manners that would be hard to achieve by new firms of a purely local origin. Fourthly, by working with large firms linked with the global market, FDI provides training in workers and management. Fifthly, it can provide advanced technology that is not easily transferable outside the firms and are already in use by foreign firms.

According to Lipsey and Chrystal (2003), the FDI works through the following mechanism: "By altering a country's comparative advantages and improving its competitiveness through technology transfer and the effects of myriad externalities, foreign as well as domestic investment can alter a country's volume and pattern of trade in many income enhancing directions." Dunning (1977) also proposes the eclectic theory of FDI which states that firm must possess some ownership advantages over other firms in the area of the firm's specific intangible assets like technology and trademarks. These intangible assets are optimized only if they are used by the firm rather than selling or leasing them. More importantly, these intangible assets are most beneficial when combined with factor inputs abroad thus, providing a justification for FDI.

Moreover, it should be pointed out that some studies could not also established positive relationship between FDI and growth for instance Carkovic and Levine (2002) uses a mix of

countries and analyzed a data sample of 72 countries, ranging from the United States to Rwanda that includes aggregate FDI flows to each of the countries. The results of their analysis indicate that the exogenous component of FDI has no effect on growth.

Durham (2002) also failed to identify a positive relationship between FDI and economic growths are contingent on the 'absorptive capability' of host countries. This is by Xu (2000) who investigated US multinational enterprises as a channel of international technology diffusion in 40 countries from 1966 to 1994. In their research studies, they reviewed the recent empirical evidence on the FDI-growth hypothesis and focused on cross country analysis mainly. In essence, the impact FDI has on the growth of any economy may be country and period specific, and as much there is the need for country specific studies. How practicable these theories are, which call for further empirical analysis.

2.12 THEORITICAL FRAMEWORK

FDI is conventionally as a form of international inter-firm cooperation that involves significant equity stake and effective management decision power in, or ownership control of foreign enterprises. FDI is also considered to encompass other broader, heterogeneous non- equity form of cooperation that involves the supply of tangible and intangible assets by a foreign enterprise to a domestic firm. Those broader collaborative associations include most types of quasi investment arrangement. Such as licensing, leasing and franchising: start up and international production sharing arrangement: joint ventures with limited foreign participation and broad R & D co-operation.

The first attempt to explain the FDI was considered Ricardo's theory of comparative advantage. However, FDI cannot be explained by this theory, which is based on two countries, two products

and a perfect mobility of factors at local level. Thus, as Ricardo's comparative advantage theory fail to explain the rising share of FDI, other models were used, such as portfolio theory. This attempt was designed to fail, because the theory explains the achievement of foreign investments in a portfolio, but could not explain the direct investments. According to the theory, as long as there is no risk or barriers in the way of capital movement, the capital will go from countries with low interest rates to countries with high interest rates. But these allegations have no basis in reality, and the introduction of risk and barriers to capital movement erodes the veracity of the theory, and capital can move freely in any direction (Hosseini 2005).

Although more realistic, the new theories of international trade still cannot capture the entire complexity of FDI and other forms of international production. The new theories of international trade, still cannot explain foreign direct and other forms of international investment (Hosseini 2005).

Robert Mundell has tried to explain the FDI through a model of international trade, involving two countries, two goods, two production factors and two identical production functions in both countries, where production of a good requires a higher proportion of a factor than the other. Neither Mundell's model could explain international production through FDI, because foreign investment incorporated were portfolio investment or short-term investment (Mundell, 1957).

Japanese researchers Kojima and Ozawa have tried to create a model to explain both international trade and foreign direct investment. They started from the model developed by Mundell and tried to develop it and improve it. Thus, in the model developed by the two Japanese FDI takes place if a country has comparative disadvantage in producing a product, while international trade is based on comparative advantage (Kojima and Ozawa, 1984).

In the presence of FDI, aggregate production in the recipient economy is carried out by combining labour and physical capital FDI affect growth directly by increasing the stock of physical capital in the recipient economy is accumulated, and indirectly by inducing human capital development and promoting technological upgrading. It also important to evaluate the extent of complementary and substitution between domestic and FDI because of simplistic Schumpeterian view of FDI related innovative investment that emphasis creative destruction through substitution may overlook the scope for complementing between FDI and domestic investment. Under complementary innovations embodied in foreign investment may create, rather than reduce rent accruing to older technologies, (Young 1993). Also, if FDI is expected to affect growth positively, it may be argued that it requires some degree of complementarily with domestic investment, at least in the short run, given that the existing factor endowments in the host country act as FDI determinant.

The introduction of FDI in standard Ramsey models yields interesting results. Under constant returns to domestic capital the condition for saddle point stability with FDI implies that negative consumption may not be avoided, and hence FDI may be immiserising (Bhagwati, 1973, Brecher and Diaz Alejandro, 1977: Calvo et'al,1996) or dynamically inefficient. On the other hand, as in the traditional of endogenous growth models, long-run growth can be achieved if the marginal product of capital can be bounded away from the rate of time preference as the stock of FDI increases, and the long-run growth rate depends positively on FDI. Increases in the stock of foreign-owned capital lead to temporary increases in the output growth rate if diminishing returns prevail in the aggregate. However, the FDI-led increase in the growth rate is permanent under constant returns. Long-run growth can also be shown to depend on the degree of complementing between capital stocks embodying domestic and foreign technologies, and the

volume of FDI as a share of GDP. Under linearity, the growth rates of the capital stock and output are constant and equal to the growth rate of consumption, and permanent increases in FDI lead to permanent in the output growth rate.

This study will therefore make its assessment by examining the contributions of FDI to growth. In addition, analyze the reality or otherwise of endogeneity theory in Nigeria. Growth theory advanced again with theories of economist Paul Romer and Robert Lucas, Jr. in the late 1980s and early 1990s. Unsatisfied with Solow's explanation, economists worked to "endogenize" technology in the 1980s. They developed the endogenous growth theory that includes a mathematical explanation of technological advancement. This model also incorporated a new concept of human capital, the skills and knowledge that make workers productive. Unlike physical capital, human capital has increasing rates of return. Therefore, overall there are constant returns to capital, and economies never reach a steady state. Growth does not slow as capital accumulates, but the rate of growth depends on the types of capital a country invests in.

2.13 SUMMARY

This chapter reviewed literature relevant to the research objectives; it built a theoretical or empirical foundation upon which the research is based. It commenced with an examination of what FDI and economic growth are, and why is necessary for the economic growth and development of a nation. The chapter further considered how FDI has impacted on the Nation’s economy. A review of the literature reveals that empirical evidence from African economics based on rigorous panel data analysis, have been very scarce and moreover mixed results exists in the existing literature research of FDI growth importantly as well. The issue of causuality and endogenality has not received treatment until lately and even then the few works reports mixed

reports results from bilateral casuality tests. This research study thus attempts to bring on new account for the endogeneity issue that may exist in the FDI modeling using pearson's product movement correlation coefficient and student T-test.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 INTRODUCTION

This chapter describes the methodology that will be used to gather the research data. It also outlines the research paradigm selected, sets out the research strategy, and also justifies the selection of the methodology. There are many options for research paradigms, strategies and detailed data collection. Specifically, the chapter presents the population and sample of the study, the data collection instruments and data analysis techniques. Two variables (FDI and GDP) were

used, the variables are usually represented by "**X**" and "**Y"**. For the purpose of this research, FDI was defined as **X** which represents independent variable. GDP was defined as **Y**, which represents the dependent variable.

3.2 RESEARCH DESIGN

Social research needs a design or a structure before data collection or analysis can commence. A research design is not just a work plan. A work plan details what has to be done to complete the project but the work plan will flow from the project's research design. The function of a research design is to ensure that the evidence obtained enables us to answer the initial question as unambiguously as possible. Obtaining relevant evidence entails specifying the type of evidence needed to answer the research question, to test a theory, to evaluate a programme or to accurately describe some phenomenon. In other words, when designing research we need to ask: given this research question (or theory), what type of evidence is needed to answer the question (or test the theory) in a convincing way? Research design `deals with a logical problem and not a logistical problem ' (Yin, 1989: 29).

The research design adopted for this study is the exploratory research provides insights and comprehension of an issue or situation. It often relies on secondary research and analysis of documents such as reviewing available literature and/or data. The data collected through the research instruments were carefully analyzed to find a solution to the statement of the research problem and to establish the validity of the hypothesis formulated for the study.

3.3 METHODS OF DATA COLLECTION

This research relies heavily on analysis of documents on secondary data obtained from Central Bank of Nigeria (CBN) statistical bulletin and annual reports for various years, National Bureau of Statistic (NBS), International Research Journal of Finance and Economics - Issue 61 (2011),

and International Monetary Fund, International Financial Statistics and Balance of Payments data bases.

3.4 RESEARCH POPULATION AND SAMPLE

The main purpose of the study is to assess the impact of FDI on economic growth in Nigeria. The time period for study is 2000-2010, based on the grounds that Nigerian started receiving significant amount of FDI inflows ten years before the period of the study. The origin in sampling regardless of the technique to be used in selecting a sample is definition of the population. This study shall cover the activities of Foreign Direct Investment (FDI) and cumulative Gross Domestic Product (GDP) in Nigeria. The sample period is twelve (11) years from 2000-2010.

3.5 METHODS OF DATA ANALYSIS

The essence of the statistical analysis is to transform raw materials (data) into a meaningful form for easy understanding as a basis for drawing inference. The models used in this study are estimated using data on Foreign Direct Investment (FDI) net inflow as independent variable while cumulative Gross Domestic Product (GDP) as dependent variable for the period of 2000-2010. Moreover, in order to undertake a statistical evaluation of our analytical model, so as to determine the reliability of the result obtained and the coefficient of correlation **r** of the regression, coefficient of determination $\mathbf{r^2}$, the student T-test is employed. It is highly hoped and believed that the method of data analysis is capable of measuring the degree of relationship between the independent variable and the dependent variable at the same time; pinpoint the extent to which they affect each other.

3.5.1 PEARSON PRODUCT MOVEMENT CORRELATION COEFFICIENT

Correlation is the degree of relationship that exists between two variables. Correlation coefficient is the index of the relationship between the two variables. The aim of the pearson's product movement correlation coefficient represented by "**r**" is to measure the precision or strength of linear relationship between two variables. The variables are usually represented by "**X**" and "**Y**", it is donated by:

$$r = \frac{n\sum xy - \sum x \sum y}{[\sqrt{n\sum x^2 - (\sum x)^2}][\sqrt{n\sum y^2 - (\sum y)^2}]}$$

The correlation coefficient "**r**" assumes a value between -1 and +1 regardless of unit **X** and **Y**. it is identified that if:

i. **r** = +1, there is a perfect linear relationship between **X** and **Y**; and **X** increases **Y** increases.

ii. **r** = -1, there is a perfect linear relationship between **X** and **Y**; as **X** increases **Y** decreases.

iii. **r** = 0, or near to 0, then there is no or little linear relationship between **X** and **Y**

iv. **r** = close to +1 or -1, the stronger the linear relationship between **X** and **Y**

The square of the correlation coefficient "**r**" gives the proportion of the variance of **Y** which can be explained by the dependence of **Y** on **X** vice versa, the remaining proportion is called residual variance which may explain the other factors.For the purpose of this research, FDI was defined as **X** which represents independent variable. GDP was defined as **Y**, which represents the dependent variable.

3.5.2 STUDENT T-TEST FOR CORRELATION

To test hypothesis raised in this research, student T-test for correlation has been used. The test is computed by using:

$$t = r\sqrt{\frac{n-2}{1-r^2}}$$

Where **r** is the pearson's coefficient, n-2 is the degree of freedom and $\mathbf{r^2}$ is the proportion of the variance of **Y** on **X**.

3.6 JUSTIFICATION OF METHOD USED

The main objective of statistical investigation is to find out the level of relationship that exists between given variables and to use such to predict or forecast a future event. The approach above has been used as a tool of prediction and inference.

3.7 SUMMARY

This chapter outlined the research paradigm selected, set out the research strategy, and also justified the selection of the methodology. The research methods adopted for this study is the exploratory research. It therefore relied on secondary sources of data gather. The methods to be used for this study are based on the pearson's product movement correlation coefficient and student T-test.

CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1 INTRODUCTION

This chapter will be devoted to the data presentation and analysis. Data were gathered from Central Bank of Nigeria (CBN) statistical bulletin and annual reports for various years, National Bureau of Statistics (NBS), International Research Journal for finance and Economics (2011), International Monetary Fund, and international financial statistics and balance of payments data bases. The purpose of the analysis is to establish whether there is any relationship (positive or negative) between Foreign Direct Investment net inflows and Gross Domestic Product (GDP) for the period of 2000-2010.

4.2 DATA PRESENTATION AND ANALYSIS

To make this research study easier for understanding and comprehension, data were presented in clear tables. GDP at purchaser's prices is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current U.S. dollars. Dollar figures for GDP are converted from domestic currencies using single year official exchange rates.

TABLE 4.1 GROSS DOMESTIC PRODUCTS 2000-2011

Years	Value in US Dollar	Change in percentage
2000	46.39	
2001	44.14	-4.85%
2002	55.12	33.94%
2003	67.66	14.44%
2004	87.85	29.84%
2005	112.25	27.78%

2006	145.43	29.56%
2007	165.92	14.09%
2008	207.12	24.83%
2009	168.59	-18.60%
2010	228.64	35.62%
2011	244.05	6,74%

Source: world data atlas, October, 2012

TABLE 4.2 FOREIGN DIRECT INVESTMENTS NET INFLOWS 2000-2010

Years	FDI Net Inflows in US Dollar	FDI Net inflows (% of GDP)
2000	1,140,138,000.00	2.48%
2001	1,190,632,000.00	2.48%
2002	1,874,042,000.00	3.17%
2003	2,005,390,000.00	2.96%
2004	1,874,033,000.00	2.13%
2005	4,982,534,000.00	4.44%
2006	4,854,417,000.00	3.34%
2007	6,034,971,000.00	3.64%
2008	8,196,606,000.00	3.96%
2009	8,554,841,000.00	5.08%
2010	6,048,560,000.00	2.99%

Source: International Monetary Fund, Financial Statistic and Balance of Payments Data Base and World Bank OECD Estimates. 2011

The latest value for Foreign direct investment, net inflows (BOP, current US$) in Nigeria was $6,048,560,000.00 as of 2010. Over the past 40 years, the value for this indicator has fluctuated between $8,554,841,000.00 in 2009 and ($738,870,000.00) in 1980. While foreign direct

investment, net inflows (% of GDP) in Nigeria were 2.99 as of 2010. Its highest value over the past 40 years was 8.28 in 1994, while its lowest value was -1.15 in 1980.

Foreign direct investment is net inflows of investment to acquire a lasting interest in or management control over an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvested earnings, other long-term capital, and short-term capital, as shown in the balance of payments. Data are in current U.S. dollars.

TABLE 4.3 MEASURE OF STRENGTH OF RELATIONSHIP BETWEEN FOREIGN DIRECT INVESTMENT AND ECONOMIC GROWTH USING CORRELATION ANALYSIS, FIGURES IN BILLION US DOLLAR

S/N	Years	FDI (X)	GDP (Y)	X^2	Y^2	XY
1	2000	1.140138	46.39	1.299914659044	2152.0321	52.89100182
2	2001	1.190632	44.14	1.417604559424	1948.3396	52.55449648
3	2002	1.874042	55.12	3.512033417764	3038.2144	103.29719504
4	2003	2.005390	67.66	4.0215890521	4577.8756	135.6846874
5	2004	1.874033	87.85	3.511999685089	7717.6225	164.63379905
6	2005	4. 982534	112.25	24.82564506116	11600.0625	559.2894415
7	2006	4.854417	145.43	23.56536440989	21149.8849	705.97786431
8	2007	6.034971	165.92	36.42087497084	27529.4464	1001.32238832
9	2008	8.196606	207.12	67.18434991924	42898.6944	1697.68103472
10	2009	8.554841	168.59	73.18530453528	28422.5881	1442.26064419
11	2010	6.048560	228.64	36.5850780736	52276.2496	1382.9427584
TOTAL		46.756164	1329.11	275.52990761659	203311.0101	7298.53531123

Source: Author's computation

Formula:

$$r = \frac{n\sum xy - \sum x \sum y}{[\sqrt{n\sum x^2 - (\sum x)^2}][\sqrt{n\sum y^2 - (\sum y)^2}]}$$

Where:

X= FDI net inflows

Y= GDP

N= No. of years (11).

$\sum X = 46.756164 \approx 46.76$

$\sum Y = 1329.11 \approx 1329.11$

$\sum X^{2} = 275.52990761659 \approx 275.53$

$\sum Y^2 = 203311.0101 \approx 203311.01$

$\sum XY = 7298.53531123 \approx 7298.53$

$$r = \frac{11(7298.53)-(46.76)\,(1329.11)}{\sqrt{[(11(275.53)-(46.76)^2 11(203311.01)-(1329.11)^2]}}$$

$$r = \frac{80283.83-62149.1836}{\sqrt{(3030.83-2186.4976)(2236422.21-1766533.3921)}}$$

$$r = \frac{18134.6464}{\sqrt{(844.3324)(469888.8179)}}$$

$$r = \frac{18134.6464}{\sqrt{396742353.35067}}$$

$$r = \frac{18134.6464}{19918.39}$$

$$r = 0.91$$

Coefficient of determination (r^2)

$$r = 0.91^2$$

$$r^2 = 0.8281$$

Having done a critical analysis of the data collected for this research study, it was discovered that there is a positive relationship between Foreign Direct Investment (FDI) and Gross Domestic Product (GDP). The coefficient of correlation (r) 0.91 (91%) shows that there is real positive relationship between the dependent variable (GDP) and independent variable (FDI). Coefficient of determination (r^2) value of 82.81% implied that 17.19% variations in GDP can be accounted for by FDI while leaving the remaining 82.81% variations to be explained by exogenous variables. This also confirms FDI has really contributed to the economic growth of Nigeria positively.

4.3 HYPOTHESIS TESTING

This section test hypothesis of the data gathered in other to ascertain the relationship that exists between FDI and Economic growth for the period of 11 years. The decision criteria is that if the calculated value of t is greater than the table derived critical "t" at 0.5 level of significant for the two tail test, then we accept the alternate hypothesis and reject null the. In other words, if test statistics t> 0.5, accept H1 and reject Ho. Where **r** is the pearson's coefficient, **n**-2 is the degree of freedom (appendix 1) and $\mathbf{r^2}$ is the proportion of the variance of **Y** on **X**. The hypothesis is formulated as follows:

H_0: There is no significant relationship between FDI and GDP growth in Nigeria.

H_i: There is a significant relationship between FDI and GDP growth in Nigeria.

Therefore student T-Test formula is computed by using:

$$t = r\sqrt{\frac{n-2}{1-r^2}}$$

$$t = 0.91\sqrt{\frac{11-2}{1-0.8281}}$$

$$t = 0.91\sqrt{\frac{9}{0.1719}}$$

$$t = 0.91\sqrt{52.37}$$

$$t = 6$$

TABLE 4.4 DECISION TABLE

Variables	Degree of Freedom(n-2)	Hypothesis	Correlation coefficient	Calculated "t"	Critical T 0.5	Decision
FDI & GDP	9	H_0=0 H_1=0	r=0.91	6.59	2.26	Reject H_0 Accept H_1

Source: Author's computation

From the hypothesis testing table above, it can be infer that FDI is statistically significant at 0.5% confidence level because the t-calculated is greater than the t-tabulated which means that the alternative hypothesis (**H_1**) is accepted and the null hypothesis (**H_0**) is rejected. That is there is a significant relationship between FDI and GDP growth in Nigeria.

4.4 SUMMARY

The chapter discuses how data gathered were analyzed and presented in a tabula form using correlation analysis model. The results found a strong relationship between Foreign Direct Investment (FDI) and economic growth by adopting GDP as macroeconomic variable which serves as a dependent variable. Therefore, the findings indicated that FDI has really impacted on the nation's economy. Test of hypothesis was also conducted that led to the rejection of null (**H_0**) and accepted alternate hypothesis (**H_1**) that there is a significant relationship between FDI and GDP growth in Nigeria.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 SUMMARY

Chapter one start with the discussion of background of the study of Foreign Direct Investment (FDI) in which the concept was defined by World Bank (1996), as an investment made to acquire a lasting management interest (normally 10% of voting stock) in a business enterprise operating in a country other than that of the investor. Such investments may take the form of either “green field” investment or merger and acquisition (M&A), which entails the acquisition of existing interest rather than new investment. The chapter states some problems that led to the whole findings, research questions and test of hypothesis were raised that serves as the bedrock of the research study. Scope, significant and limitations of the study were also discoursed in the chapter.

Chapter two cover the literature review where the opinions of many researchers and writers were gathered and treated extensively on the concepts of Foreign Direct Investment (FDI) and Economic Growth. Trends and determinant of FDI inflows in Nigeria and Africa were discoursed. Sectorial analysis of FDI inflows was shown in a clear table in the chapter. The chapter further made empirical reviews on the studies of some selected researchers on related

topic using different approach in their studies and finally the chapter states the theory upon which this research study was based.

Chapter three brief us on the research methodology which explained the method the researcher employed that aid in arriving at meaningful research study inference. This comprises of research design and procedures, method of data collection and analysis was carried out in the chapter.

Chapter four discoursed on data presentation and analysis in which data were presented in a clear table for easy understanding and interpretation. Simple correlation and student T-test for hypothesis were conducted which all indicated that there was a significant relationship between Foreign Direct Investment and Economic Growth of Nigeria.

Chapter five, deals with summary, conclusion and recommendation of the findings of the researcher, which summaries the whole chapters. Make a meaningful conclusion by arriving at foreign direct investment has a significant impact on economic growth of Nigeria. Suitable recommendations were made to encourage a sustainable foreign direct investment into the country to enhance economic growth.

5.2 CONCLUSION

FDI in any country not only represent the investment of the foreign nation but it also transfer the better and current technological innovations, enhanced human resource and administrative ideas, well trained labor force and management skill. This is to presume that, FDI is more productive than domestic investment. As Graham and Knigman (1991) argue, domestic firms have better knowledge and access to domestic market; if a foreign firm decides to enter the market, it must compensate for those advantages of domestic firms. It is most likely that a foreign firm that decides to invest in another country enjoys lower cost than its domestic competitors deriving

from higher productive efficiency. In the case of developing countries like Nigeria in particular, it is likely that the higher efficiency of FDI would owe to the combination of advanced management skills and technology with domestic labour and inputs; FDI may be the main channel through which advanced technology is transferred to developing countries. Foreign direct investments have positive effect on economic growth of Nigeria.

Moreover, different types of distortion may jeopardize the above role of FDI as a means for advanced technology transfer. For example, because of protectionist trade policies FDI may be the only way to access domestic markets by firms that would otherwise export the products to the host country.

Similarly, government may offer a set of incentives to foreign investors to stimulate the inflow of FDI, with objectives of increasing foreign exchange reserve or of developing certain sectors considered strategic from an industrial policy viewpoint. The effect of these policies may be a flow of FDI that does not respond to higher efficiency but only to profit opportunities created by distorted markets. The robust finding of this research study shows that FDI has really impacted into Nigerian economy and has strong positive relationship between FDI and economic growth by using GDP as a dependent variable in the study.

5.3 RECOMENDATIONS

It is recommended that For FDI to be beneficial for the economy the perquisites are to insure the availability of the adequate local market for production, better human resource, development of import substitution industry and manufacturing units. Therefore the following recommendations are also made for this research study:

1. The government should insure incentives and opportunities for the foreign investors to transfer current management skills and technological innovations.

2. It should provide sound business and peaceful environment and opportunities to strengthen foreign investors.

3. It should establish long term strategies to develop macroeconomic framework for proper and significant use of FDI.

4. Generate bilateral relations with the potential foreign investors to attract them into the country.

5. Foreign Direct Investment should be an asset for any nation; it should be used and utilized to get benefited not to get exploited.

6. A related issue on the business environment is the importance of consciously curbing corruption. Agencies established to fight corruption such as the Economic and Financial Crimes Commission (EFCC) and Independent Corrupt Practices Commission (ICPC) should be seen to do their job to convince both foreigners and indigenes that Nigeria is a safe place to invest in.

7. There may be need to further liberalize the power sector by encouraging independent power supply providers. These should be encouraged to complement the efforts of the Power Holding Company, whose inability is apparent in constant power failures and attendant high costs of providing electricity.

8. Greater policy sensitivity towards the openness of the economy is needed so that the traded commodities will be beneficial to the economy as a whole.

9. There is need for guided training and integration of the human resources of the country to enable them to contribute positively to economic growth wherever they find themselves employed either with foreign or with indigenous firms and whichever sector they are in. The need for training high quality personnel in the country cannot be overemphasized.

10. To this end, government should encourage steady flow of FDI so as to improve the national GDP for a better economic growth.

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